

Demand for road-fuel in a small developing economy: The case of Sri Lanka

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Abstract

This paper estimates the demand for road fuel (petrol and auto-diesel) in the context of a small developing economy—Sri Lanka. The data set covers a period of 39 years from 1964 to 2002 representing both close economy and open economy policy regimes. The estimation procedure is based on seemingly unrelated regression equation (SURE) methodology mainly to capture substitutability of petrol and diesel in road transportation. The effect of auto-fuel prices on vehicle demand is also analyzed as a part of the analysis. In addition to confirming existing evidence on road-fuel demand, the findings reveal some interesting evidence with respect to own-price elasticity, cross-price elasticity, lag effects, income and vehicle mix variables.

Keywords: Own-price; Cross-price; Substitutability

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