

## Gasoline Prices in 2006

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People ask if our economy can continue to grow in 2006 if the price of crude oil is \$65 per barrel and the price of gasoline is \$3.00 per gallon. I think we will grow even if crude oil stays at \$65 per barrel, and its very encouraging to note that if crude stays at \$65, gasoline will probably cost about \$2.40.

In the pages that follow, I show that the normal markup between the price of a gallon of crude and a gallon of gas has been about \$.80 recently, up from about \$.60 cents a decade ago.

Taxes vary by state, but average \$.42 per gallon. So the costs of refining and distribution have been a little less than \$.40 a gallon in recent years.

There are 42 gallons in a barrel. So a gallon of crude would cost \$1.55 if crude were to cost \$65 barrel.

If we add the \$.80 markup to the cost of a gallon of crude, gas should cost \$2.35 a gallon when crude costs \$65 per barrel.

I think this economy can continue to grow strongly if gasoline costs \$2.35 a gallon.

Recently, the markup between the price of crude and the price of gasoline jumped to \$1.40 per gallon, or to about \$1.00 net of taxes. This markup is \$.60 higher than the normal markup. The attached charts show how unusual it is to have a markup this high.

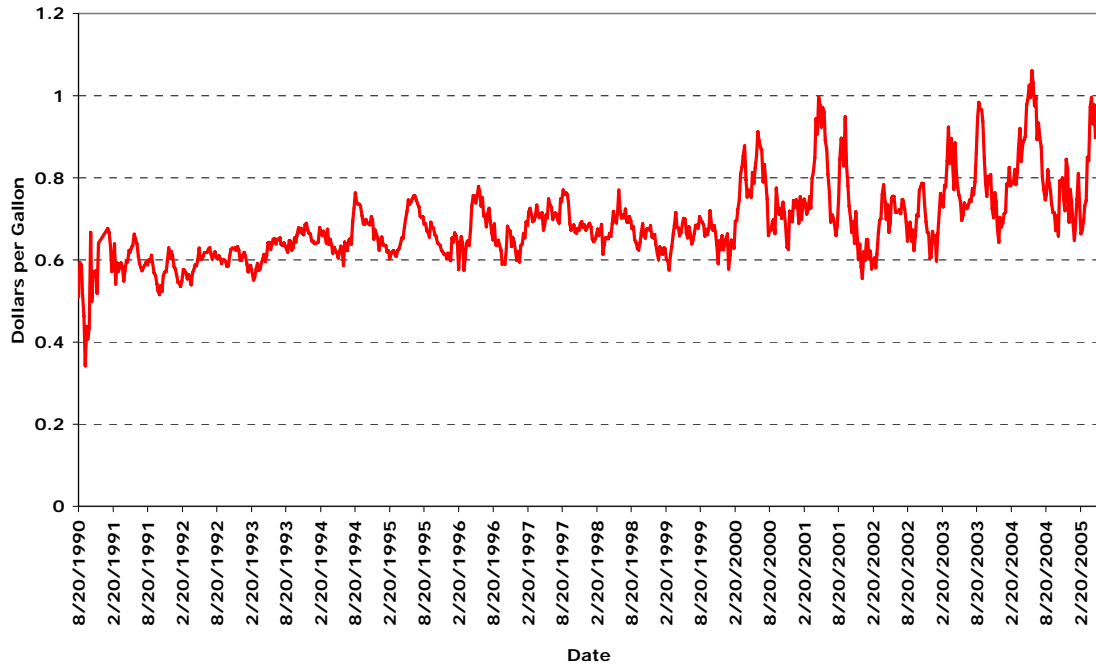
It is possible that this spike in was a result of normal market factors and that no individual or company had control over what happened. Nonetheless, it was painful for households to pay \$3.00 per gallon and as a result of the higher markup, billions of dollars left their pockets and went into someone else's pockets. I am curious to know who received these billions.

### CHARTS

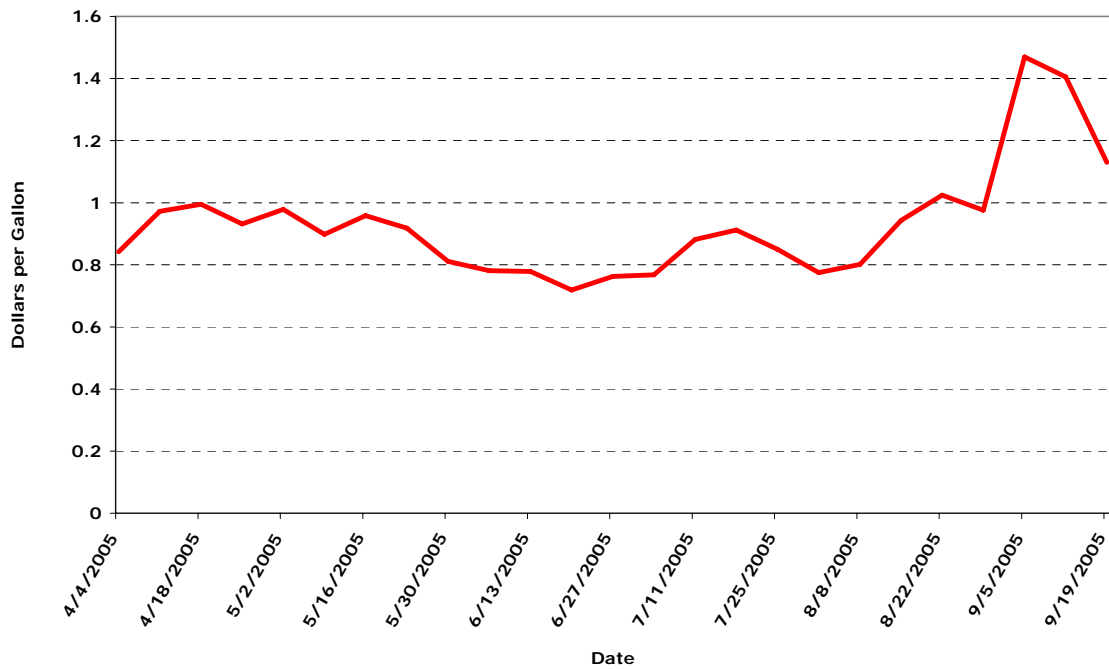
The following two charts show the historical markup between the price of a gallon of crude and a gallon of gas. The top chart shows the last 15 years ending in April 2005 and

the bottom chart shows the pattern from April 2005 to today. Clearly there is no precedent for the jump in the markup to \$1.40 that we saw recently.

**Markup Between Crude and Gasoline, 1990 to 2005**



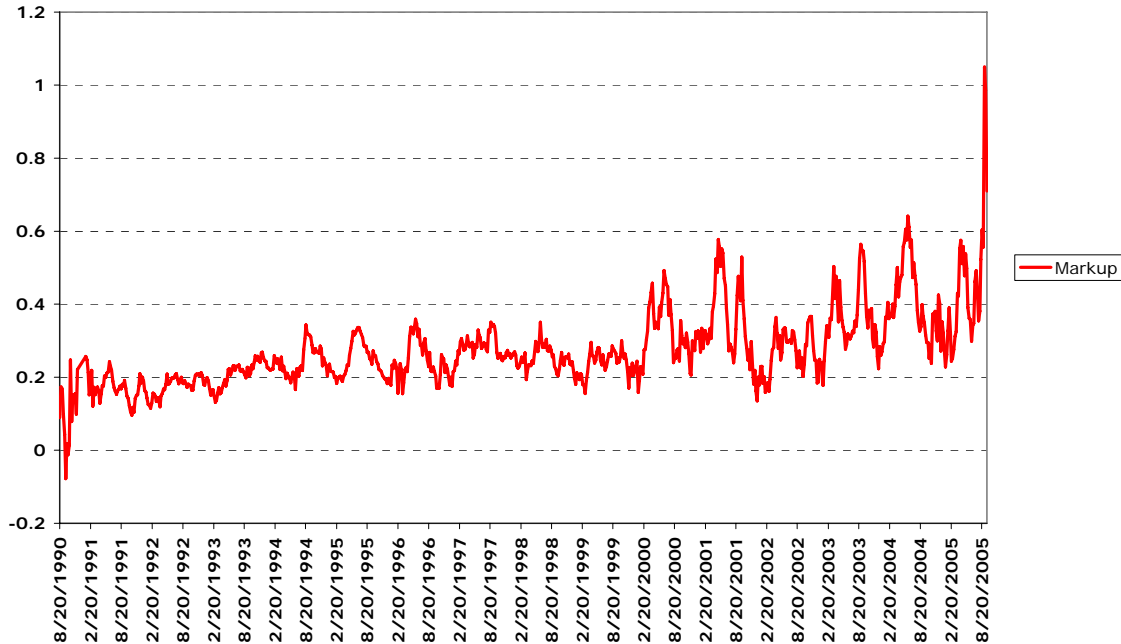
**Markup Between Crude and Gasoline, 4/05 to Today**



The final chart shows the markup after subtracting \$.42 for taxes. Different states tax at different rates and \$.42 is the average. Some taxes vary with the price of gas and this chart does not account for that variation.

The spike from \$.40 to \$1.00 is striking.

**After Tax Crude-Gas Markup**



As a final note, how high would the price of crude have to be to justify a \$3.00 per gallon price of gas at normal markups?

\$3.00 per gallon of gasoline less an \$.80 markup leaves \$2.20 as the price of a gallon of crude. With 42 gallons in a barrel,  $42 \times \$2.20$  is \$92.

I doubt we will see crude oil reach \$92 per barrel in 2006. Hence I doubt we will see gasoline at \$3.00 a gallon.