

Abstract:

This paper studies the factors behind the fluctuations in petroleum prices and the subsidy adjusted on a regular basis to maintain the local petroleum products prices stable. The rationale behind the study is to examine whether subsidizing petroleum product in India is a boon to the economy of the country or is it adversely impacting current account deficit. Is the economy better off accruing the deficit in the oil pool account when the prices are subsidized or it is making the economy worse off in terms of the current account deficit. A comparison between the administered pricing mechanism and the trade parity pricing mechanism is undertaken. The taxation of petro products is analyzed to assess which pricing mechanism is appropriate in terms of the overall impact on the average citizen of India.