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The Heterogeneous Incidence of Fuel Carbon Taxes: Evidence from Station-Level Data

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ABSTRACT

We use station-level price data and a fuel carbon tax reform to study who bears the economic burden of fuel carbon taxes. We find that on average fuel carbon taxes are less than fully passed through to consumer prices, which suggests that consumers and the supply chain split the burden of these taxes. Using information on station location, we match price observations with postal code-level average incomes and with rural-urban measures of urbanization, and show that there are significant differences in the pass-through rate across real incomes and between rural and urban areas. These differences are not explained by differences in local competition. The effect of fuel carbon taxes on consumer prices decreases with areal income and with the degree of urbanization.