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A STUDY INTO THE EFFECTS OF DEREGULATION OF
THE NEW ZEALAND PETROL INDUSTRY

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ABSTRACT

The overall objective of this thesis is to investigate the effects of deregulation of the New Zealand petrol industry. Various economic theories are presented in an effort to help the reader better understand the industry, and to explain its workings. The legislative background is discussed, and areas looked at cover the structure, conduct, and performance of the industry and its participants, both prior to, and after deregulation. An econometric analysis of the industry is also conducted.

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CHAPTER 1: INTRODUCTION

The New Zealand economy prior to 1984 was characterised by extensive legislation and regulation. This legislation resulted in the exchange of many goods and services at prices that were restricted by the government, rather than being set by the forces of supply and demand. This occurred both at the national level, such as the wage and price freezes of the Muldoon era, and at the individual market level. With the election of the fourth Labour government in July of that year, the process of deregulation was set in motion.

One such market was the petroleum industry, which was deregulated on the 9th of May 1988 with the enactment of the Petroleum Sector Review Act 1988. The objective of this legislation was to increase the level of competition within this industry, and thus bring benefits to consumers in the form of lower prices. Whether this industry is more competitive now that the regulations have been removed is a contentious issue. There is a common belief among many people that the petrol companies have for years, been colluding and making supernormal profits, at the expense of consumers.

This thesis analyses the industry before and after deregulation, and seeks to draw conclusions as to the 'success' of deregulation.

Chapter two sets out to review the earlier works concerning this topic, and briefly outlines various economic theories that relate to this thesis. It also describes the market structure-conduct-performance framework, on which the structure of this thesis is based.

Chapter three outlines the background conditions governing the industry, including the regulatory background.

Chapter four presents the structure of the New Zealand petrol industry, and covers such topics as oligopoly theory, vertical integration, and barriers to entry.

Chapter five analyses the conduct and performance of this industry, and includes the pricing behaviour and non-price strategies of the firms within the industry.

Chapter six is a basic econometric analysis of the New Zealand petrol industry, which provides, among other things, a comparison of the determinants of the price of petrol before and after deregulation.

Chapter seven presents the conclusions of this thesis, as well as outlining possible future research.