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Abstract

The international oil market has been very volatile over the past three decades. In industrialized economies, especially in Europe, taxes represent a large fraction of oil prices and governments do not seem to react to oil price shocks by using oil taxes strategically. The aim of this paper is to analyze optimal oil taxation in a dynamic stochastic general equilibrium model of a small open economy that imports oil. We …nd that in general it is not optimal to distort the oil price paid by …rms with taxes, neither in the long run nor over the business cycle. The general result could be reversed depending on environmental considerations and available …scal instruments. We provide simulations to illustrate the optimal response to shocks in such cases.

Key words: Optimal oil taxation, general equilibrium, small open economies.

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