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Oil Prices and the Impact of Rising Economies

Metasebia Tabor
Valparaiso University

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INTRODUCTION

- The first commercial oil well was drilled in Romania in 1857, since then oil has been playing a crucial role in the global economy.
- High oil prices can slow economic growth, cause inflationary pressures and create global imbalances.
- High oil prices and tight market conditions have also raised fears about oil scarcity and concerns about energy security in many oil-importing countries.
- The supply-demand factor seems to be popular among the factors that outweigh the impact of Organization of Petroleum Exporting Countries (OPEC).

OBJECTIVES

"We have moved from a marginal supply side to a marginal demand side". Edgard Habib, Chief Economist of ChevronTexaco

Supply-Side OPEC's "Magic Hand":
- OPEC assigns production quotas to its member countries with the intention of limiting the supply of crude oil to the world market thereby creating higher oil prices to its members.
- It can easily boost oil prices by lowering its production quotas or by not increasing its quotas in response to an increased global oil demand.

Demand-Side-The "China Factor"
- China’s demand for oil is expected to reach 13.6% of world demand by 2030.
- Political: the liberalization of the energy market in China, an important step towards an effective energy policy.
- Transportation Sector: energy consumption in the transport sector is expected to grow by 4.7% per year, finally reaching a maximum of 19.3% by 2030.
- Increased household incomes is expected to lead to an increasing rate of motorization by 5%.

Future Implications:
- China overtakes the US to become the world’s largest oil consumer by 2025 and Russia by 2027 to become the second largest gas consumer.
- China contributes 43% of the net increase in global consumption as its share rises from 21% today to 27% in 2030.
- Oil import dependence will rise to 28% of consumption from today’s level of 6% as China overtakes the US to become the world’s biggest energy importer by 2015.

CONCLUSIONS

It is evident that supply side of the global oil market is being marginalized by rising global oil demand.

The increase in demand is directly linked to intensified and growing economic activities measured through GDP. Demand from developing countries, mainly that of China and to a lesser extent India, has a higher influence in shaping the global oil price.

REFERENCE

Oliveir J. Blanchard Jordi Gali (2007). The Macroeconomic Effects of Oil Shocks: Why are the 2000s So Different from the 1970s?
Joshua Brumman, Robert Crayj (2013). Is there a Homogenous Causality Pattern Between Oil Prices and Currencies Oil Importers and Exporters?

EXHIBIT 1: OPEC member countries oil production in barrels per day

EXHIBIT 2: Oil demand: regions vs. China

EXHIBIT 3: Global oil market: other factors

EXHIBIT 4: Empirical methodology

EXHIBIT 5: Results

EXHIBIT 6: Reference