Gasoline And Price Control

Janet Ng

EEP 142

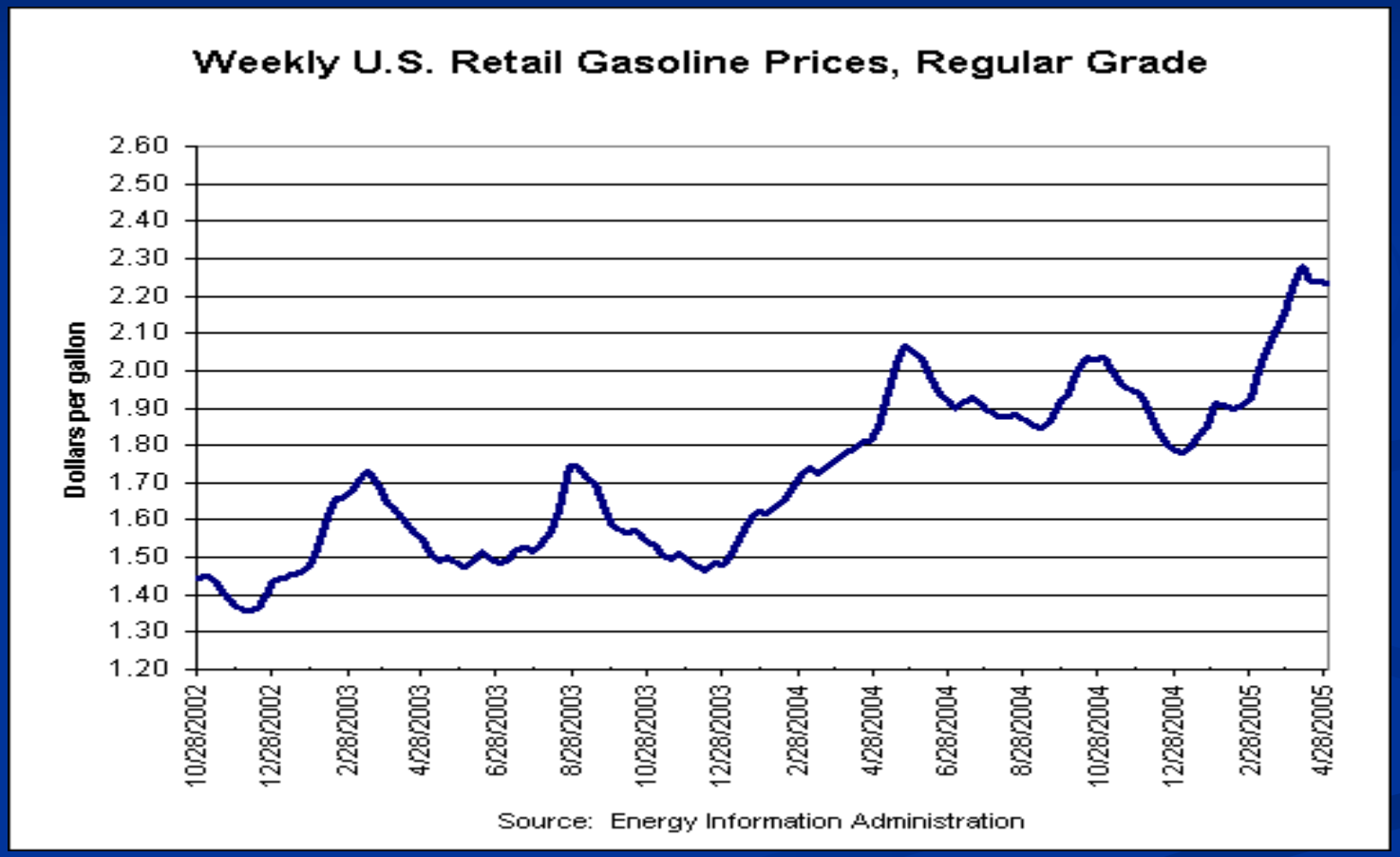
Spring 05

Current U.S. Retail Gasoline Prices

	4/11/2005	4/18/2005	4/25/2005	Change from week ago	Change from year ago
States					
California	**2.592**	**2.584**	**2.565**	**-0.019**	**0.441**
Colorado	**2.269**	**2.244**	**2.217**	**-0.027**	**0.386**
Florida	**2.296**	**2.277**	**2.263**	**-0.014**	**0.448**
Massachusetts	**2.172**	**2.152**	**2.187**	**0.035**	**0.438**
Minnesota	**2.121**	**1.997**	**2.033**	**0.036**	**0.272**
New York	**2.311**	**2.304**	**2.309**	**0.005**	**0.42**
Ohio	**2.22**	**2.066**	**2.156**	**0.09**	**0.376**
Texas	**2.157**	**2.131**	**2.119**	**-0.012**	**0.444**
Washington	**2.442**	**2.476**	**2.478**	**0.002**	**0.478**

Source: Weekly U.S. Retail Gasoline Prices, Regular Grade, 2005

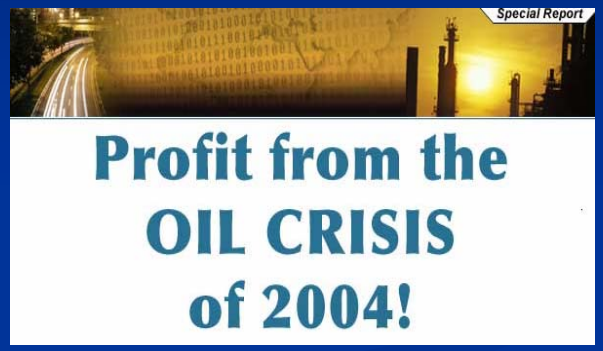
Current U.S. Retail Gasoline Prices, cont'd.



Source: Weekly U.S. Retail Gasoline Prices, Regular Grade, 2005

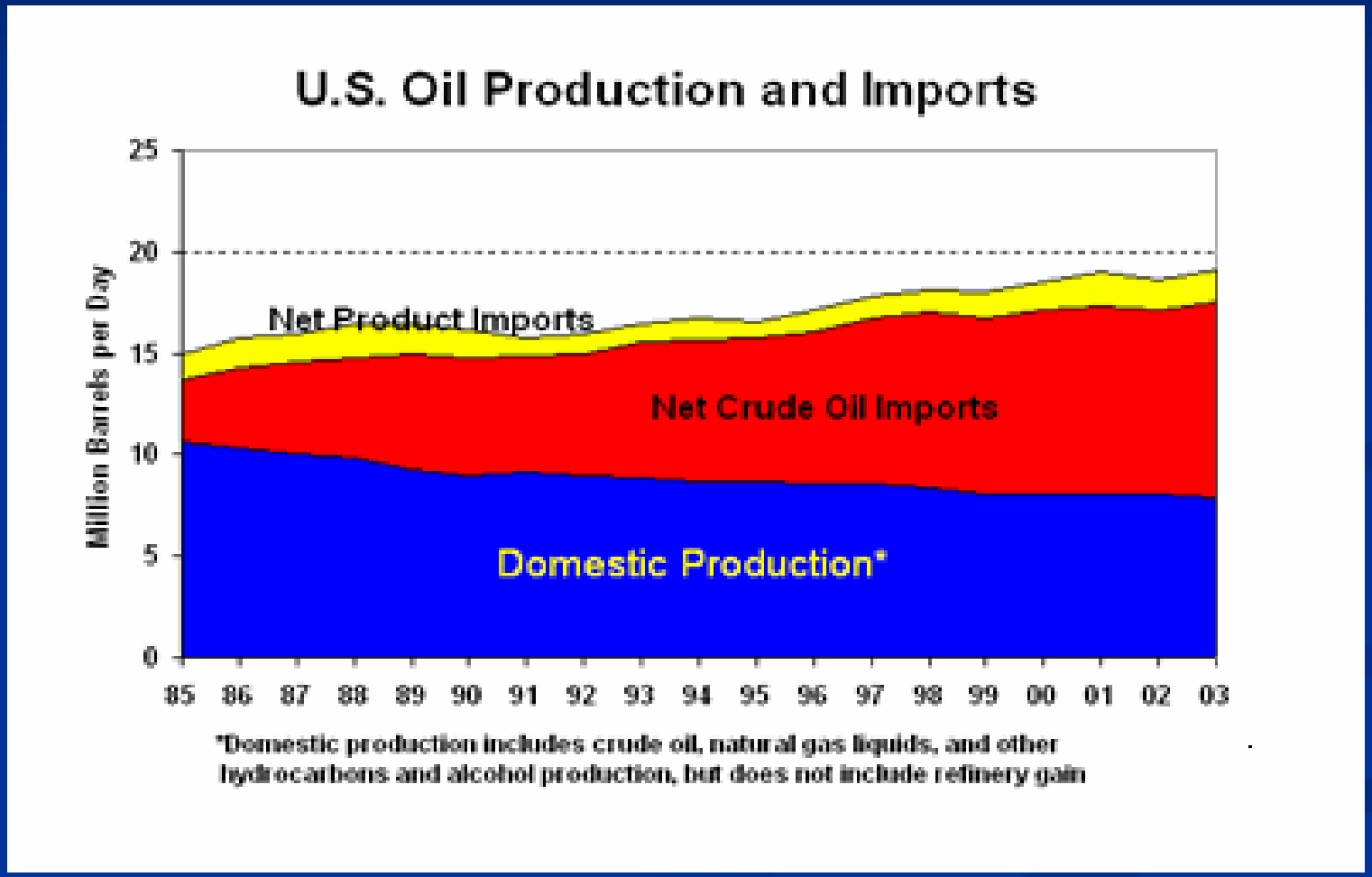
Reasons for Increasing Gasoline Prices

- OPEC's Short Supply – big oil companies operate at tight supply and monopoly prices.



- Decrease in U.S. crude oil production – production averaged 5.4 million barrels per day (bbl/d) during the first ten months of 2004, was now at 50-year lows.

U.S. Crude Oil Production



Source: United States Country Analysis Brief, 2005

Reasons for Increasing Gasoline Prices, cont'd.

- Strong consumer demand - demand increased at nearly 9.2 million bbl/d over the last four weeks in 2004, exceeding 2003's demand by nearly 0.5 million bbl/d.
- Other factors - insurgent attacks on oil pipelines in the Middle East, and a refinery explosion near Houston, Texas, in late March disrupted the supply chain.

1973's Oil Crisis

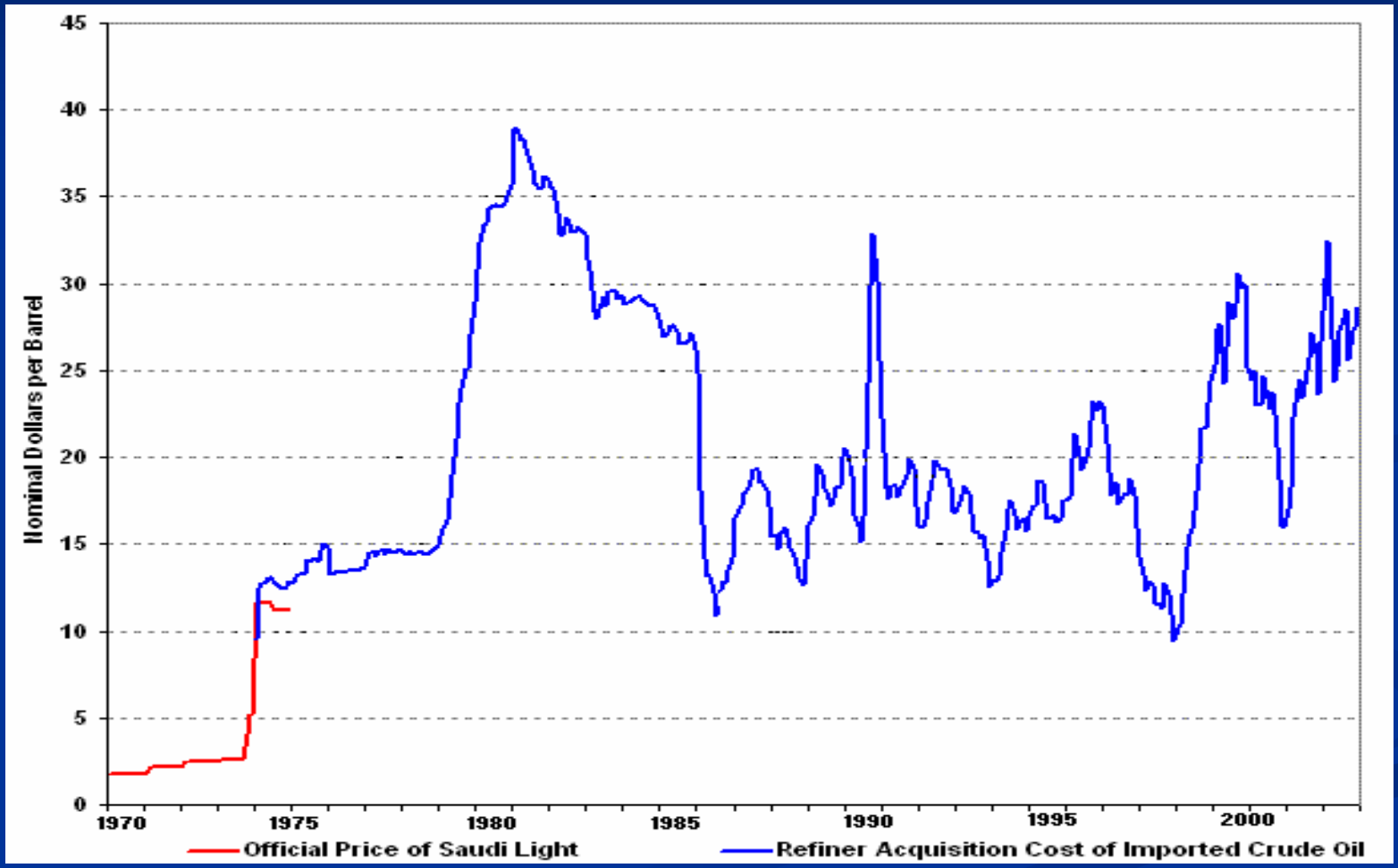
Reasons for 1973's Oil Crisis

- Strong consumer demand - 36% of energy consumption was in foreign oil in 1973; while it had been 22% only in 1970.
- Political Reasons - the Watergate scandal of President Richard Nixon and the devaluation of U.S. dollar.
- A growing tension between U.S. and Arab countries - Arab-Israeli conflicts and the Yom Kippur War.
- OPEC's decision - reduced supply and raised oil prices.

1973's Oil Crisis - Some Data

- Imports of oil to U.S. dropped from 6 million in September 1973 to 5 million in subsequent months.
- The price per barrel rose 130% by December 1973.
- Oil embargo ended in March 18, 1974; but OPEC continued to raise oil prices.

Oil Price Chronology



Source: Energy Information Awareness Graph of Oil Prices

1979's (Second) Oil Crisis

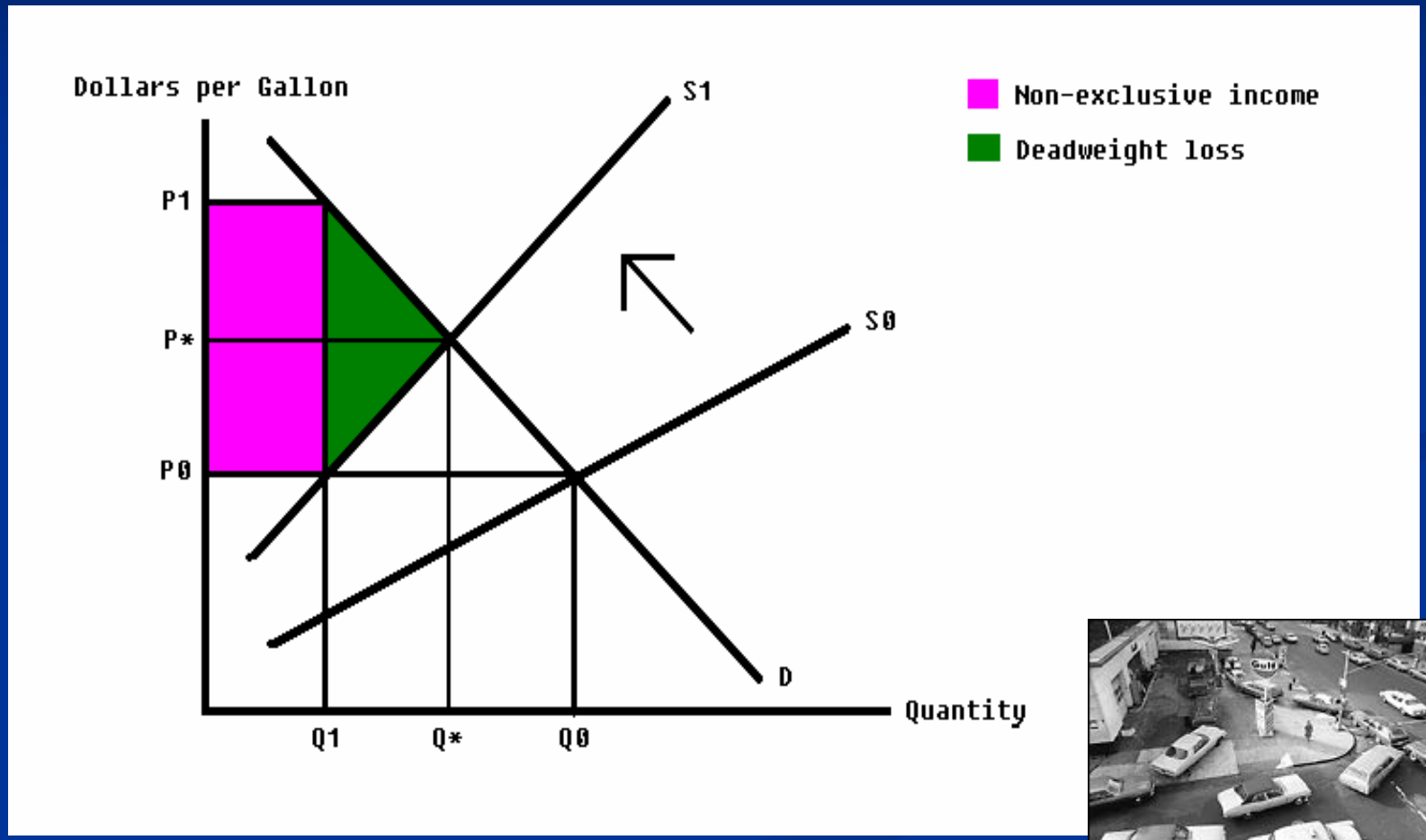
Reason for 1979's Oil Crisis

- The Iranian Revolution - another shock came in 1978 to 1979 when the new Shah of Iran cut off oil production.

Government's Actions

The U.S. Government set maximum prices for gasoline in 1973 and 1979 in response to the decrease in the supply of gasoline by OPEC. A price control (and rationing) were imposed on gasoline; dealers sold gas on a first-come-first-served basis.

Price Control on Gasoline



Rent Dissipation

Sellers could capture some of the non-exclusive income by:

- Cutting the business hours - provide day-time service instead of 24-hour service.
- Lowering gasoline quality - sell gasoline of lower octane rating, which incur a lower production cost.
- Reducing services provided with the gasoline - change from full-service to self-service or no-service.

Demand may be lower due to the above measurers and total dissipation reduces.

No Price Control in Current Period

- Deadweight loss or rent dissipation.
- Rising gasoline prices lead to economic growth? Example of Germany in the 1990s.

Germany faced a crude oil price increase of 211% between the fourth quarter of 1998 and third quarter of 2000; she experienced economic growth with falling unemployment and inflation.

Our Actions

- Carpool - saves money and helps reduce traffic congestion and pollution.
- Use public transportation - reduces transportation costs up to $1500?
- Service the vehicle regularly - improves mileage, reduces emissions, improves vehicle safety, and adds years to the life of a car.
- Choose a fuel-efficient vehicle if possible.

Conclusion

A fall in oil price will happen only if we have a decrease in demand and an increase in supply.

Acknowledgements

- EIA. Weekly U.S. Retail Gasoline Prices, Regular Grade. 2005. 6 May 2005 <http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html>.
- -----. United States of America. 2005. 3 May 2005 <http://www.eia.doe.gov/emeu/cabs/usa.html>.
- Eland, Ivan. Have 1,000 U.S. Souls Died for Oil?. 2004. 3 May 2005 <http://www.independent.org/newsroom/article.asp?id=1362>.
- Wikipedia. Energy Crisis. 2005. 2 May 2005 <http://en.wikipedia.org/wiki/Energy_crisis>.