

THE MACROECONOMIC EFFECTS OF WORLD CRUDE OIL PRICE CHANGES

Dr. Ercan Ekmekcioglu

Kyrgyzstan Turkey Manas University

Str.Manas 56, 720044

Bishkek-KYRGYZSTAN, Turkey.

Abstract

This paper will entirely focus on crude oil and how it affects the entire world. Crude oil is one of the precious and highly demanded commodity in the entire world since it affects transport which is one of the most important and effective parameter within the entire world. Through the recent rise in price of crude oil the entire world has experienced the worst losses in business culminating from sharp inefficiency of macro economics. This paper also articulates on the Oil price changes and economic output which is very imperative in analyzing the business environment in terms of macro economic. It also greatly highlights and analyzes on macroeconomic advantages of world crude oil price changes. In this part various aspects that affect crude oil are focused in terms of profitability that they facilitate.

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Key Words: Macro-economics, Price output in macroeconomic, price demand, Macro economic variables, Crude oil Macro-economics.

1. Introduction

In recent years, the review on the nature of energy price shocks and their connected effects on the economy have drastically changed with time. This has made the entire situation efficient and effective. In prevailing view, major crude oil prices have led to economic growth of some countries. However, other countries have continued to languish in economic downfall. In crude oil, major issues have led to price increment in a significant way. This includes the world economic recession that has led to an increase in the general living standard, and the emergent of cartels around the world (International Monetary Fund, 2004). In this regard, the importance of shifts in demand for this vital commodity has led to exploitation of the entire market. In the world, there is usually a paradox which views the crude oil in two perspectives namely; oil as an asset, and in the other approach, as price which is entirely determined and pushed by desired stocks.

Crude oil has been regarded as one of the important commodities in the world (Hubbard, 1998). It has been observed that crude oil prices are hugely controlled by shocks to the flow of supply of oil and flow demand. Through this, it has consequently stimulated effective and efficient growth in all realms of the world. Crude oil has transformed business scenarios by ensuring that businesses continue to post tremendous economic growth. This has also facilitated the economic status of these countries that involve themselves in the production of crude oil (Oliever & Jordi, 2007). Crude oil has a lot of advantages that are associated with its products. Crude oil is usually broken down into various products, which are very effective and important in spurring reputable economic growth.

In recent times, crude oil demand has risen to greater heights. As a consequence, the benefits of its trade are easily achievable across the world. Through crude oil trade, various projects have been achieved with much ease. This includes the innovation and invention of dual carriage pipelines. This trade has also facilitated the improvement of major cities and towns across the world. This has been achieved through returns generated from the sales of crude oil, which enhances major infrastructure to be implemented within the shortest time possible (Huo Gui & Kliesen, 2005). The crude oil prices have risen to uncontrollable level in recent times. This has enhanced major transformation all over the world. Through this, the economy of those countries that imports crude oil continues to diminish. On the other hand, those countries that produce crude oil continue to prosper in terms of substantial economic growth. The countries producing crude oil include all the gulf countries, which continue thriving through exploitation of the gulf oil. Many developed countries continue to prosper through exploitation of crude oil from the developing countries.

This is because the developing countries lack of efficient knowhow and cash flow to facilitate the exploitation of this valuable natural resource (Papapetrou, 2001). The approach to this issue involves the analysis of the economic outlook on matters that relate to the tremendous growth in oil prices, which have led to decline of major business operations. This has been facilitated by the high cost of operation which is connected to the entire approach. Thus, many crude oil barons have benefited from the selling of crude oil at relatively high prices. In this regard, they end up benefiting from high-profit returns. Crude oil shocks usually exert a major influence on all macro-economic activities through channeling of major economic approaches. In particular, major oil prices changes usually increase or decrease. Most crude oil prices have a significant connection with the entire future prices, and a significant effect on the gross domestic product (Barsky & Kilian, 2004).

Policy makers in the world are hugely concerned with the large price movements and controls, and how they affect the crude oil market. One important scenario is the process by which recession affected the entire world market. The recession brought all the adverse conditions, which culminated in price increase in crude oil, and its by-products. Oil price increase in countries across the globe lowers future gross domestic product growth by hiking the production cost. Alternatively, in many approaches, large oil price changes usually increases or decreases the entire output. This is because they delay most business investment by raising any uncertainty, or in other perspectives, inducing costly portion resource reallocation. Thus, it is vital to analyze and explicitly air out the differences between two channels through which different changes in crude oil prices affect economic activities and approaches (Bruce, 1958). The first major and noble approach to gauge the strength of a currency is through efficient comparisons between changes in the dollar price of crude oil as far as its market niche is concerned. It is also equally important to check on issues that pertain to an increase in uncertainty about future prices that closely connects with the crude oil price.

2. Oil Price Changes and Economic Output

The correlation between oil price mechanism and the economic output is usually a very common approach. Therefore, it requires a lot of review in the best and appropriate manner. In many circumstances, an increase in crude oil price is closely associated with substantial slower output growth. Major negative calamities associated with economic growth are closely connected to distinct inflationary times (Pindyck & Robert, 1991). This could not have been easy in anticipation of major gross national output growth in relation to issues like output of crude oil; prices; or in many extreme situations, money supply. There is a clear relationship between oil price changes and the associated macro economic variables. This is clearly articulated by monetary and fiscal policy measures, which facilitate the mitigation of effects relating to oil price shocks that are related to macro economy based on the oil market disruptions. Most oil shocks have a tremendous impact in relation to economic output by other means other than inflationary cost push effects. Oil prices do not adversely affect major countries, such as the US and other leading European countries due to strength of their currency. In this regard, their macro economic status continues to register massive economic growth, which in the process spurs their economic industry to higher levels of profitability (Gisser & Goodwin, 1986).

Increase in crude oil prices has a high connectivity with a country's gross national output. It is also evident that crude oil price level and changes that involve it do not really exert a major influence on gross domestic product growth. Thus, there are parameters whereby an increase in oil prices is not highly realizable in economic terms.

Any linear relationship that relates oil price changes and economic growth usually depicts a major stimulation connected to economic growth by any oil decline. However, in the recent past, economic output growth has facilitated a decline of oil price change mechanisms. This is achieved through initiation of major policies, which entirely tries to curb and solve the entire issue. In a hypothetical approach, research shows that there is a linear relationship between oil price increases, and therefore, connecting economic growth. In the other approach, when oil price declines substantially, they usually do not affect economic activity in a great way.

Oil prices have enabled countries that produce crude oil to post magnificent economic growth. This enables them to transform the entire market situation. Prices across the globe increases and decreases and at the same time reflecting a substantial and tremendous volatility of real oil prices. The current oil market conditions entirely reflect the interplay of production, stocks, and all parameters of consumption. In the past few years, the global economic growth and diversification has substantially strengthened the entire crude oil market; thus, trying to make it much simpler for all the consumers in the world. As a result, tremendous growth in the entire world has spurred crude oil consumption.

This has consequently moderated the entire market approach to sharp oil price increase, which deteriorates the entire oil market in general (Siamack, 1995). Speculative business approaches appear to have played a pivotal role in various historical episodes. However, there is clear evidence that the entire approach caused a significant surge in the oil price, and in a great and influential manner. The distinction that involves different crude oil demand and its supply shocks usually has far-reaching implications. These implications are felt through different effects on all countries' economies and the real price of the oil (Bohi & Montgomery, 1982). In this regard, not all shocks are harmful to the world crude oil importing countries. For instance, shocks to the world flow depend entirely on economic growth working through entire industrial commodity prices. Consequently, product price usually affects the entire market scenario of all the products apart from those that closely relate with crude oil. Therefore, crude oil is a huge determinant of the economic approach to the market. An increase in crude oil leads to an equal increment in the cost of living. This is because crude oil affects the transport industry, which is responsible for the increment or decline of prices in the market scenario. It is usually important to review the world on parameters of growth, which is usually realized based on the economic conditions that can be attributed to the crude oil. Most Asian countries, which have vast natural resources in terms of crude oil, have continued to register advanced economic prosperity (Sauter & Awerbuch, 2003).

Crude oil price changes also affect the countries' economic growth in a great way. Through this, a country can review the measures that should be put in place so as to transform and facilitate economic growth. Most countries experience internal and external dis-economies of scale through rampant growth associated with crude oil sales. Companies usually ensure that all effective measures are analyzed in the most appropriate manner. Many countries in Asia continent, including the gulf countries, and some African countries, such as Libya are the biggest producers of crude oil. Therefore, they enable and facilitate major progress in their respective economies through high profitability, which is closely connected to the sale of crude oil (Hamilton, 1996). Crude oil in regard to economic growth is usually very vital since it contributes to a high economic base. This is the case for both countries producing oil, and those that entirely imports the product. This leads to rise, and growth of many powerhouse countries propelled by the rampant economic growth. Macro economic effects associated with crude oil are important in many perspectives. This is because it is through them that a country can occupy a significant level of achieving all the set goals and targets in terms of economic growth (Hooker, 1996). Macro economic effects related to crude oil have enhanced and facilitated healthy and formidable economic territory. This leads to the establishment of middle class and developed countries. Crude oil, when processed, has various products, which can be channeled into various ways and approach. This is aimed to ensure that efficiency in the world of business has been facilitated in the most fundamental and effective way possible.

Crude oil processing also requires a lot of know how, invention and knowledge. Through this, many countries are able to ensure that economic growth is facilitated via proper initiation of the processes required. Through economic growth facilitated by crude oil business, various approaches, including technology advancement, have been facilitated in an appropriate way. This has enabled the countries to transform their ways of producing products and services that are closely connected to crude oil (Federer, 1996). Major paradigm shifts in production have been boosted by the efficient and effective crude oil available in their industries. This has led to rampant and well defined growth approach of the market scenario. Technology in aspects of macro economic has propelled the economic situation of the countries that produce, and those that consumes crude oil. This has been affected through initiation of more radical economic aspects that promote gross domestic output level in the countries (Papapetrou, 2001a).

3. The Effects of an Oil Price Rise on Aggregate Demand

It is imperative to facilitate the effect of an increase in the price connected with oil in relation to use of supply and demand model. In simple approach, it is fundamental and effective to analyze the economic scenario through which major transformation has been initiated and reviewed in the most appropriate manner. In all circumstances in the market, the demand of crude oil products has been rising, at the same time registering rampant and effective growth. In circumstances where prices of outputs are high, demand of the product declines tremendously (Lee, Shwan & Ratti, 1995). Most countries take this advantage of ensuring that they wholly benefit by ensuring that effective measures of selling crude oil is initiated in the most appropriate way. This enables the countries to boost their economic growth, and in the process, ensuring that fundamental approaches regarding the crude oil sales and demand are adhered to effectively. In recent times, the cost of crude oil has risen tremendously. This has been due to the wide range of usage connected to its products (Mork, Olsen & Mysen, 1994).

This facilitates growth of countries and companies that deal with the sale of crude oil. This is because of the high demand, which is usually connected to this precious product. In this regard, the leading companies and countries dealing with crude oil have significantly benefited from the sale of this product. The demand of crude oil has also increased tremendously, to enable the accomplishments of various tasks and projects. Oil price hike has led to a substantial decline in the product demand though the product is much needed in the market. This has led to a change in the entire market scenario in search for a much efficient and appropriate alternative for the crude oil (Hooker, 1996). The emergence of various oil cartels has also played a significant role in the increase of the price of crude oil. Cartels have exploited the crude oil market to a tune of influencing the already high prices to an extreme level. Major transformations in this realm of crude oil and demand have also been facilitated. This is being solved by rising of companies, which abolishes the issue of cartels. These companies ensure that the crude oil products are sold at the right and efficient market price. The crude oil market has been very dynamic in that prices increase randomly. The cost of oil has facilitated the rise in economic capability of various countries and consequently efficiency is facilitated (Stock, & Watson, 2003).

4. The Demand for Oil

There are several approaches, which explain and analyze the full scenario underlying in the demand for oil. They include cynical demand, prices of substitutes, changes in climate, and market speculation.

4.1. Cynical Demand

In the crude oil market, there is a strong link that connects the demand for crude oil and the rate of global economic growth. This link is facilitated by the fact that oil is one of the most demanded and important commodity around the world. In instances where economy is relatively expanding and growing, demand for oil also is set to increase. This has been easily seen in rampant thriving economies such as China. In this regard, instant growth of national output in the entire energy intensive parameters has greatly led to surge in the demand connected to crude oil (Riley & College, 2006a).

4.2. Prices of Substitutes

Demand for crude oil, is in some instances, greatly affected by the relative prices of various oil substitutes in an economy like the market price of gas. In the future, price of crude oil will be greatly affected by the production of cheaper substitutes, which can be used in place of crude oil. This will ensure that there is healthy competition the energy sector. The high price of oil for the past few years has led to massive research efforts concerned with production of substitutes that are capable of replacing the crude oil (Riley & College, 2006a).

4.3. Changes in Climate

The major issue that connects crude oil with climatic changes is the heating of oil. When the heating effect rises to a given level, the price of crude oil rises to a relatively high range. This makes it hard for customers to acquire the product.

4.4. Market Speculation

There is always a determined speculation associated with oil for prices in the world markets. Thus, the most common approach connected with speculation is spike in oil prices. This has led to high level of demand that relates effectively with international petroleum exchanges (Wei & Chao, 2003).

5. Macroeconomic Advantages of World Crude Oil Price Changes

Crude oil provides one of the most important and paramount approach as far as efficiency and effectiveness of its market is concerned. It enables countries to benefit from both external and internal economies of scale through facilitating the entire business. Many business approaches that concern the market and sale of crude oil have enabled countries to achieve their goals and targets. Crude oil and gas service usually provide an outstanding analysis of the entire oil market essentials and industry development in a great way. On the global scene, the economic growth and technology have been boosted in a great way (Riley & College, 2006b). Through effective business approach in the crude oil industry, there has been tremendous and instant growth. This is associated to the imports, exports, and prices of this vital commodity. Businesses have emerged from the entire crude oil industry, which are integrated with macroeconomic and risk data. Through this, most oil companies in the world have been able to analyze their business based on the SWOT analysis. This has enabled the oil-producing countries to benefit from macro economic factors by ensuring that they have occupied a substantial market niche in the market. In the process, these businesses satisfy their esteemed customers in all realms of the market sphere (Papapetrou, 2001b).

Since the rising economies in many countries are connected to crude oil business, various contracts have been established between the countries that produce oil and those that do not produce. This has enhanced and facilitated effective business between many countries without many hitches. Crude oil business has also led to the rise of investment banks, consultancies, government agencies, and many multinational corporations. All these entirely dwell on ensuring that business has thrived in all aspects. This also facilitates businesses to occupy market niche that is capable of boosting tremendous macro economic growth (Yang, Hwang & Huang, 2002).

Oil being one of the most traded commodities has led to the emergence of various business empires. These businesses wholly involve themselves in trading of this precious natural resource. Fluctuating prices related to crude oil have vital effects for oil producers and exporters. Also, this affects all countries that entirely depend on oil as a noble input in their energy processing and service industries. Therefore, crude oil is one of the businesses that have led many countries to realize their goals and targets (Rasche, Robert & Tatom, 1977). This has enabled them to expand their economic territories to a higher notch, and thus, enabling the achievement of the market objectives.

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