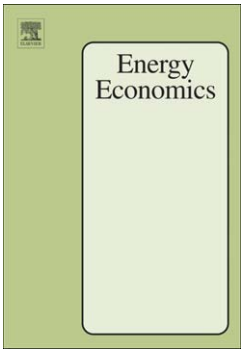

Historical Energy Price Shocks and their Changing Effects on the Economy

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PII: S0140-9883(16)30355-3
DOI: doi:10.1016/j.eneco.2016.12.009
Reference: ENEECO 3517

To appear in: *Energy Economics*

Received date: 21 April 2016
Revised date: 1 December 2016
Accepted date: 4 December 2016

Please cite this article as: van de Ven, Dirk Jan, Fouquet, Roger, Historical Energy Price Shocks and their Changing Effects on the Economy, *Energy Economics* (2016), doi:10.1016/j.eneco.2016.12.009

Historical Energy Price Shocks and their Changing Effects on the Economy[1]

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The purpose of this paper is to identify the changes in the impact of energy shocks on economic activity – with an interest in assessing if an economy's vulnerability and resilience to shocks improved with economic development. Using data on the United Kingdom over the last three hundred years, the paper identifies supply, aggregate demand and residual shocks to energy prices and estimates their changing influence on energy prices and GDP. The results suggest that the impacts of supply shocks rose with its increasing dependence on coal, and declined with its partial transition to oil. However, the transition from exporting coal to importing oil increased the negative impacts of demand shocks. More generally, the results indicate that improvements in vulnerability and resilience to shocks did not progress systematically as the economy developed. Instead, the changes in impacts depended greatly on the circumstances related to the demand for and supply of energy sources. If these experiences are transferable to future markets, a transition to renewable energy sources is likely to reduce vulnerability and increase resilience to energy price shocks.

Keywords: energy prices; long run; economic impact, supply shocks, demand shocks

JEL Classification: Q43, N53, N73, O33

[1] We would like to thank Steve Broadberry, Simon Dietz, Karlygash Kuralbayeva, Lutz Kilian, Danny Quah and Martin Stuermer for their comments. In addition, we would like to thank Lutz Kilian for his code. All errors are our responsibility. We also gratefully acknowledge the financial support of the Global Green Growth Initiative (GGGI), the Grantham Foundation, the ESRC, the Basque Centre for Climate Change (BC3) and Ikerbasque.