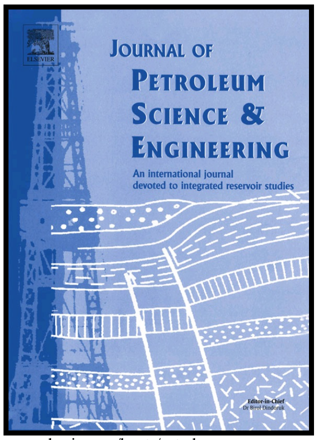
Author's Accepted Manuscript



www.elsevier.com/locate/petrol

Falling Oil Prices: Causes, Consequences and Policy Implications

Muhammad Imran Khan

PII: S0920-4105(16)30829-4
DOI: http://dx.doi.org/10.1016/j.petrol.2016.10.048
Reference: PETROL3708

To appear in: *Journal of Petroleum Science and Engineering*

Received date: 30 April 2016
Revised date: 13 October 2016
Accepted date: 28 October 2016

Cite this article as: Muhammad Imran Khan, Falling Oil Prices: Causes Consequences and Policy Implications, *Journal of Petroleum Science an Engineering,* http://dx.doi.org/10.1016/j.petrol.2016.10.048

Falling Oil Prices: Causes, Consequences and Policy Implications

Muhammad Imran Khan

Institute of Petroleum Engineering, Heriot Watt University, Edinburgh, UK
mk42@hw.ac.uk

Abstract

Following four years of high stable prices at about 107 $ per barrel, crude oil prices have fallen sharply since summer 2014 and are projected to stay at low level for an extended period. There are multiple factors which are being considered behind this plunge in the oil's prices. Most observers have conjectured that domestic oil boom in the United States and Iraq is the major cause for the falling oil prices. Some have suggested that a major shock to oil price expectations occurred after the November 2014 meeting of OPEC, when they did not cut production despite the steady increase in non-OPEC oil production.

In the first part of the publication, we quantitatively analyzed the effect of various factors on the oil prices and then we studied the contribution of geopolitical strategies of US and Saudi Arabia towards this oil crash. We conduct comparatively analysis of the recent drop in oil prices with previous incidents up to 1996. We than show that the demand and supply formula cannot be implemented to the current oil plunge.

We studied the economic and financial consequences of the current oil bust. Lastly the paper discusses the projections of oil prices.

Keywords: Crude Oil; OPEC; Price; Shale Oil; Barrel.

1. Introduction

Global oil prices have fallen sharply over the past two years, resulting in one of the most dramatic declines in the price of oil in recent history. The collapse of oil prices from around $114 in June 2014 to $46 in January 2015, has led to a large body of literature analyzing the causes of this steep oil price drop and its macro-economic implications. However, most of this literature is mainly written by international organizations (see, for instance, the IMF blog by Arezki et al. [1], investment banks (such as Goldman Sachs Global Investment Research division's report on "The New Oil Order" [2]), various (energy) economists, and of course mostly internal reports by oil and gas companies. Most of written work is speculative and some of it downright conspiratorial.