

**Oil Demand in the US and Japan:
Why the demand reductions caused by the price increases of the 1970's
won't be reversed by the price declines of the 1980's**

by
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Abstract:

This paper analyzes the imperfect price-reversibility ("hysteresis") of oil demand in the US and Japan. We test econometrically oil demand data, disaggregated into transportation oil and non-transportation oil uses.

The oil demand reductions following the oil price increases of the 1970's will not be completely reversed by the price cuts of the 1980's. The response to price cuts in the 1980's is perhaps only one-fifth that for price increases in the 1970's. This has dramatic implications for projections of oil demand, especially under low-price assumptions.

We also consider the demand effects of a price recovery in the 1990's, specifically whether the effects would be as large as for the price increases of the 1970's or only as large as the smaller demand reversals of the 1980's. On this the results are inconclusive.

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