

The Changing World Petroleum Market: Demand in the Industrialized Countries

by
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Abstract:

This paper surveys OECD energy and oil demand over the past three decades, analyzing the different paths of transportation oil, non-transportation oil, and non-oil energy -- both over time, and relative to income growth. We review both the OECD as a whole, and make regional comparisons within the OECD. We focus especially on the price-irreversibility of oil demand: why oil demand has not surged now that oil prices have returned to pre-1974 levels.

Among our conclusions are the following. There has been an asymmetric, smaller demand response to the price decreases of the 1980's than to the price increases of the 1970's. We expect a smaller demand response to future price increases than to those of the 1970's. The demand response to future income growth will be not substantially smaller than in the past. Finally, given the prospect of growing dependence on OPEC oil, in the event of a major disruption the lessened responsiveness of demand to price increases could cause dramatic price increases and serious macroeconomic effects.

Keywords: oil demand; price reversibility; asymmetry; hysteresis
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