Economics 101 For Non-Economists
3/28/2022

Oil is a necessity and will remain so for some time to come. To an economist that means its demand is price inelastic. A large price change is required to bring about a small change in demand in the opposite direction. Globally, stocks declined in each quarter in 2021 and supply/demand balances remain precarious through early 2022 with no signs of easing any time soon. In fact, the situation in the short run could very likely deteriorate further if we were to lose 2 or more MMB/D of Russian exports starting in April/May.

With demand in excess of supply and limited prospects in the short run that supplies will improve prices have to rise to bring demand down to available supply. Yet the political system (while well-intentioned) wants to send checks to ease the pain of retail gasoline prices. This might have both political and consumer support, but it is counterproductive. Price is painful as it does what prices do in a market economy. That is bring demand back down to available supply.

By lowering price from where it would otherwise be, you artificially stimulate demand in an environment where supply is insufficient to meet current demand. If you want to get prices down, there are two ways. Both options play out over time. The first occurs without any action by others; the high prices lower economic activity and with it the demand for oil. The second, which does require some involvement by government, is to put in place policies that encourage additional supply. In March of 2020, domestic crude oil production was 13MMB/D and rising. Today it is 11.6MMB/D. That's a loss of over 1.4MMB/d. We need to get supply back up to over 13MMB/d as soon as possible. It can be done, but it will require cooperation between the industry and the Administration.

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