Free article review about oil prices, exhaustible resources, and economic growth

Business, Leadership

Oil prices were more costly when the industry began compared to today. The methods used to get the oil were very expensive. The oil prices began to fall when other drillers dug more oil wells. The oil prices have been falling and many people find it hard to comprehend given the fact that oil is an exhaustible resource. The Hotelling’s theory argues that the supply of oil has always been seen as vast. Additionally, the date of exhaustion of all the oil supply is perceived to be very far. These perceptions have made it impossible for the oil prices to be affected by the exhaustible nature of the oil.

The fall in oil prices can also be attributed to the technological changes that have led to low oil extraction costs. The discovery of other oil fields has also led to the increase of oil production. Some resources have become economically accessible leading to an increase in oil production. The increase in oil production lowers the oil prices.

The oil production in the US has increased for a period of 150 years due to the advancement in technology. The initial methods used when drilling oil involved steam power and manual labor. These methods were slow and cumbersome. Advancement in technology has led to improvement of the oil extraction methods. Superior sources of power have also been discovered. Research has enabled the discovery of more oil fields. The first oil field in the US was discovered in Pennsylvania. Other oil fields were later discovered in Ohio and West Virginia. By the time the oil production in Pennsylvania started declining, the other areas were making high productions of oil. That is why oil production in the US continued to rise leading to low oil prices. Oil is an exhaustible resource and that is why the production in an area peaks, and then starts declining. The discovery of more oil productive areas has made it possible for the US to continue producing seamlessly despite decline in the older oil fields.

The incentives for higher prices and technological advancements can help in the reversal of the decline of oil production. An example is the case of Pennsylvania. The only problem is that these factors reverse the decline for only a short period. It is high time the US and the rest of the world start treating oil as an exhaustible resource. The perception held is that new oil regions will be discovered before the oil production of a particular oil field begins to decline.

The world has experienced economic growth due to the increase in the production of oil. The major economic effects were felt where there were cyclical factors. The cyclical factors contributed to the underutilization of capital and labor. Output was consequently driven below the full employment level. Increases in oil prices have historically taken care of oil shocks.

Oil experiences the long run price elasticity of demand. Demand adjusts to the increase in oil prices over a given period of time. An example is where the price of oil in the US was increased in the 1970s. The consumption of petroleum declined by 17% in the period 1978 to 1985 while the real GDP rose by 21%. The economic growth experienced has been due to technological advancements and luck in finding new sources.