

Current events report and analysis

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Current events report and analysis Summary According to the estimates of the International Energy Agency the production of the oil of the United States has been on the rise. This increase in the production of the oil is much more than it was estimated by the economists. This has provided the company with a very strong capacity of oil. The consumption of the oil in the United States has also increased over the last year and the rate of increase is much more than that of the other large economies of the world. This increase resulted due to the increase in the demand in the petrochemical industries. As result of the increase in the supply of the oil, the price of the oil has gone down in the country. The demand for oil in the other oil consuming major countries like Spain and Italy had been due to the crisis that these countries have been experiencing. Thus among the other developed countries the both the consumption and the production of oil in the United States has been the highest (Norris 1).

In respect to the above article, the demand and supply model has been fit and the analysis has been done from the perspective of the oil prices of the United States. The diagram below depicts the demand and supply of oil in the economy of US. The downward sloping curve is the demand curve and the upward rising curves are the supply curves.

Figure 1: Demand and Supply Equilibrium

(Source: Samuelson and Nordhaus 57)

In the figure it can be seen that the initial supply curve of oil in the economy of US is given by S_2 which was the supply of oil in the previous period. The demand and supply curve in the initial phase intersected at the equilibrium price of P_2 and quantity Q_2 . In the present period the supply of oil in the

economy increases and the new supply curve shifts to S_1 . Therefore at the same level of demand for oil in the economy the demand and supply curves intersect to form a new equilibrium the new equilibrium point is formed at the price P_1 and at the quantity Q_1 .

If the macroeconomic policy of aggregate demand and supply is applied to the article above it can be found that the rise in the consumption has resulted in a push in the demand for oil. This in turn has increased the level of supply of oil in the economy.

(Source: Petri 231)

In the above figure the aggregate supply and demand curve has been drawn. The initial aggregate supply curve is AS . Due to the rise in the production of oil the new aggregate supply curve would be at AS_1 . The rise in the production of the oil has led to the fall in the prices. As a result the price level of the economy decreases. The spending of the people increases the aggregate demand in the economy. This results in the increase in the level of consumption in the economy. Therefore the real output of the economy goes up.

Works cited

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