Impact of falling oil prices

The prices of oil have experienced a great slide. This is from 147 dollars a barrel, in the year 2008, to less than 50 dollars a barrel, as from this year (Morgenson, 4). This is more than a half of the reduction in the prices of oil. The greatest beneficiaries in the reduction of the prices of these substances are consumers. This is because they are able to buy gas at a reduced price, per gallon. That is within a range of 2. 50 per gallon, down from the previous price of 4. 00 dollars per gallon. In as much as this reduction in oil prices is good news to consumers, on a general perspective, it has a very negative effect on the economic growth and development of most states. This includes that of United States, which is one of the major consumers of oil and oil related products (Pahl & Anne, 33). This paper argues that the low prices of oil, as they are witnessed currently, are very harmful to the economies of the world.

One of the major impacts of the falling oil prices is the destruction of economies that are heavily relying on oil. Examples include the Russia, Venezuela, Iran, and even Saudi-Arabia. In a recent rating of the Venezuelan debt capability, the country was downgraded, and this is because of a drop in the oil prices, by more than 40% (Johnson, 5). This is because the country had a very low level of international reserves and foreign exchange. Furthermore, Venezuela is also experiencing economic declines, and this is because it is unable to pay off its government workers, and offer essential services such as health care services. In fact, President Maduro was able to tour most oil producing countries, in a bid to influence them to reduce the production of oil, but he was unsuccessful. Russia is also another country that is negatively affected by a low price of oil (Johnson, 5).

Just as Venezuela, the Russian economy is dependent on oil; as a result, the value of the Russian currency has depreciated. Just as Venezuela, the Russian bonds are trading at a very low price, and this means that the two countries are experiencing a recession. In a recent credit rating of Russia, the rates of defaults were very high, and this means that trading in Russian bonds or debts was very risky. This is an indication that the Russian economy is experiencing a recession, mostly because of oil, and partly because of the economic sanctions that the European Union has placed on Russia. Pahl & Anne (44) explains that cheap oil are not only hurting the economies of states that are relying on the production and exportation of oil, but it is also hurting economies of countries such as United States and United Kingdom.

For instance, the British energy sector, specifically the oil industry is experiencing some recessions, and this has led to the laying down of most workers, leading to an increase in unemployment. High rates of unemployment are bad for an economy, and this is mainly because it has the capability of reducing the GDP growth of a given state (Pahl & Anne, 38). There is also a reduction in the US oil production, with the US shale industry experiencing a reduction in its production. This is because shale oil producers are removing drilling rigs from the fields of North Dakota and Texas. This indicates that the industry is collapsing, and hence it may lead to retrenchments and job cuts. Another negative effect of low oil prices is a reduction in innovation.

Because of cheap oil, scientists would reduce on their research, hence failing to come up with other innovative ways of relying on oil, or coming up with other measures on how to lower the prices of oil (Morgenson, 9). It is important to explain that innovation is one of the factors that has led to the growth of the highly leading economies such as United States, United Kingdom, France, China, Japan, Germany, etc. Without innovation, then chances are high that these countries would not come up with better innovative solutions that can help in the growth of their economies. Furthermore, cheap oil prices does not only negatively affect companies that are on the oil industry, but also other companies that are in the manufacturing, retail, and service sector.

For instance in the housing industry, cheap oil prices may lead to a fall in the prices of houses, making developers to go to a loss. It is important to explain that the major beneficiaries of cheap oil prices are consumers, and companies such as Wal-Mart which are practicing cost leadership strategies. However, to industries and companies, this is a negative trend, and this is because it may lead to the fall of the companies or industries under consideration, because of a low sale of its products. This would in turn make these companies to fail in increasing their profits. This is disadvantageous to the economy, mainly because there will be a low rate on new investments, and the rates of job creation would be low.

However, Kruse (19) disagrees with this suggestion that cheap oil prices have a negative effect to the economy. In proving his point, Kruse (27) explains that oil is energy product, which can be used for purposes of facilitating production. Therefore, Kruse(18)explains that when it is cheap, the costs of production would reduce, leading to increased profits. Furthermore, Kruse(33)asserts that cheap oil prices are beneficial to an economy, and he gives an economy of countries such as China, Japan, and other Asian countries that heavily imports energy products. He asserts that by importing cheap oil, chances are high that their economies would experience some elements of growth. In as much as Kruse(18)is right, when he denotes that a reduction in oil prices have an effect of reducing production costs, this would take a long process and period of time.

This is because a reduced oil price, would amount to a reduction in the sales value of products, and this is not good for a company that aims at maximizing its profits. Countries that heavily rely on oil would be at a loose, and this is because they would not manage to get value for their oil products or substances (Pahl & Anne, 38). Furthermore, in a report published by the World Bank, there are indications that the global economy is on the decline, as from the year 2014 (Johnson, 7). This is despite of the expectations that the oil price would still experience some elements of decline. This is an indication that the reduction of oil prices cannot lead to the development of an economy, and instead, it can play a significant role in its decline.

In conclusion, a reduction in oil prices is not beneficial to an economy. One of the reasons is that it may lead to the destruction of the economies that relies on the exportation of oil, and this includes countries such as Iran, Russia, and Venezuela. The low price of oil also plays a role in the collapse of industries that are responsible for producing oil. This means that there would be laying off of workers, and this would lead to an increase in unemployment, which is not good for the GDP of an economy. However, there are arguments that cheap oil prices are beneficial to the economy, because of a reduction in the prices of products. This is only beneficial to customers, and not to the entire economy as a whole. Therefore, cheap oil prices are not beneficial to the economy.

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