Free essay on gasoline report

Business, Company

Introduction

The company contemplates to raise the gas prices in the coming ten years. However, this cannot be taken for lightly because, rising gas prices is very essential for the company in helping it to meet rising direct and in direct costs as well as increase of the company's profit margin. Rising cost is mainly attributed to the cost of crude oil which has been increasing year after year. This is a priority because crude oil is main raw material used in production of gas. However, the company should take caution when increasing the price to avoid loosing customers to competitors.

Based on previous statistics, it is evident that the price of gas has been on rise year after year for the last three decades. The impact expected from increased prices is decrease in the sales of the company and the industry at large. This is because an increase price of commodity makes demand of the commodity to fall. However, the demand of the product has increased not only in USA but also in other parts of the world especially in ASIA. For example, demand for gasoline in ASIA made BP and shell to record high prices in 2009 despite the global financial crisis (Shell Dutch Company 2011). Therefore, the company's sales may not decrease considerably to increase in price. However, it must be sensitive on the rate of price increase and keep it within the regression range (Hughes Knittel, & Sperling, 2006).

The data obtained from United States department of labor statistics (2010) shows that, the price of gasoline has risen considerably over the past three decades. The relationship between year and the average price of gas per year has been found to be linear. This was discovered when average prices per year were plotted against year since 1982. A regression line has been

fitted and it has been found to have a positive slope. This means that the price of gasoline is expected to increase considerably in the coming years. In the year 2020 the price is expected to be 3. 2. This prediction is expected to collect given that the price is predicted in the light of the basis discussed below.

The positive slope indicates that the company will not loose sales if it keeps its prices within the regression range but its sales may fall if it increases the prices within the outlier. Data from hearing committee on energy recourses 2004 shows that the demands for light pick ups and trucks rose by 32% despite increase in gas prices. This is attributable to availability of credit. Therefore, the demand for gasoline is expected to rise because the demand for trucks is increasing as a result of availability of credit. The demand for trucks is also increasing because people are minding more about there travelling convenience especially during holidays. This means that increase in fuel prices does not affect the demand of trucks more than availability of credit. Consumers therefore do not care so much on level of vehicle’s gasoline consumption as long as they can get enough money to buy the car they need. Holding supply constant, it is expected that the prices of gasoline might increase further due to high demand of trucks. (Hughes Knittel, & Sperling, 2006)

Consumers are less likely to think that they are exploited by the sellers now and then increases in prices given that the supply for crude oil has been uncertain over years. They vividly know that, in adequate supply makes raw materials expensive and this additional cost must be met in form of increased prices of the out put. Disruption of production due to scarcity of

raw material (crude oil) means that gasoline produced may not meet the demand. The fact that demand may exceed supply in some years indicates that the equilibrium prices will be forced to rise. The political instability in Arabian countries gives an early warning that supply will be interrupted and prepares consumers psychologically to accept increased prices.

Over the last decades the prices of gasoline have been on rise this has made consumer s to accept unpredicted adjustments in pump prices. Therefore, they are less likely to forgo present consumption in anticipations of future price decline. It can therefore be expected that, if the company increases prices gradually over time (within regression range) consumers are likely to cope well because of there expectations (Hughes Knittel, & Sperling, 2006)

The demand for gasoline is relatively in elastic because the product lacks close substitute. For example, those who posses machineries which consume gasoline do not have any immediate alternative source of energy. In addition, it is less likely that those who own trucks consuming gasoline will sale dispose or stop using them due to increased gasoline price.

Conclusion

It is therefore expected that increase in pump prices within regression range will not have effect the company negatively. This is due to the in elasticity of gas demand curve, lack of close substitutes, consumers' expectations that prices will keep on rising and political unrest in Middle East which prepares the consumers psychologically to meet increasing prices. The linear regression may not hold if a close substitute is discovered. All consumers are likely change there loyalty especially if the substitute prices are low and are expected to rise at a lower rate.

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