

Collapse of oil prices

[Literature](#), [Russian Literature](#)



Collapse of Oil Prices An article posted on the Wall Street Journal on 14th of May, reflects on the IMF outlook regarding the collapse of the world's oil prices. Accordingly, the study tried to explain how the oil prices were affected by both the forces of demand and supply. The IMF observed the prices into two phases from July to October of 2014 and from October 2014 to January 2015. The IMF observed the changes in both oil prices and stock prices daily and made some assumptions. Accordingly, if the stock prices and the oil prices both declined it appeared that the global demand was weak. On the other hand, if oil prices dropped and the stock prices were on the rise, then the IMF assumed an increment in oil supply. These two forces explained the plunge of oil prices (Zumbruni, Para 1-4).

The results indicated that during the first phase the oil price drop was attributed by weak global demand. For instance, crude oil declined from \$ 105 to around \$ 82. However, in the second phase, the oil prices for the crude oil dropped further to \$ 50 and IMF suggests that a decrease in the oil price was due to increased demand. The estimates reveal that supply outdid the demand during this phase (Zumbruni, Para 1-4). The explanation aligns with the class materials effectively as it explains the effect of reduced demand and increased supply on prices.

Accordingly, a decrease exerts a downward pressure in the short-run.

Apparently, increased supply allows a surplus of the commodity in the market, therefore, exerting a downward pressure on the price levels. These aspects are reflected in chapter four that focused on demand and supply within the oil markets. The above information may be illustrated as follows;

P (oil)DS

D1

P

P1D

SD1

Q1QQ (oil)

Graph 1: Shows a decrease in global demand leads to decrease in oil prices

P DS

S1

P

P1S

S1D

QQ1Q

Graph 2: Indicating increase in supply exerting downward pressure in oil prices

Works Cited

Zumbruni, Josh. Supply of Demand? The IMF Breaks Down the Collapse of Oil Price. Wall Street Journal. Real Time Economics. April 14, 2015. Retrieved from <http://blogs.wsj.com/economics/2015/04/14/supply-or-demand-the-imf-breaks-down-the-collapse-of-oil-prices/>