

Gasoline and other petroleum products: a political commodity essay sample



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Significance of Gasoline and Other Petroleum Products

Gasoline and other petroleum products of even nature are indispensable to any country's economy. This is so primarily due to the fact that gasoline and other petroleum products provides for the continuity and viability of the various operations involved in the production and exchange of different goods and services in any economy and among economies as a whole for the purpose of satisfying every individual's needs and wants.

Likewise, due to the fact that the production of gasoline and other petroleum products as well as the technology involved in its manufacture are not readily available to other countries, such good can actually cause jitters in any economy. Thus, it can be said that the rise in the price of the above-mentioned commodity can be extremely felt by underdeveloped countries but not so much in countries with strong economies like that of the United States (US).

Objectives of the Paper

For the purpose of this paper, it is the aim of the author to discuss how the rise in the price of gasoline and other petroleum products extremely affects underdeveloped countries as well as present why strong economies like that of the United States (US) are not so much affected by this. Likewise, it is also the objective of the author to present how gasoline and other petroleum products of even nature are regarded as a " political good" or " political commodity".

Demand and Supply Conditions of Gasoline and Other Petroleum Products

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The price of gasoline and other petroleum products of even nature are actually dictated by the world market. The said price of oil in the world market becomes the basis of various business entities, involved in the retail and distribution of such commodity, for their selling prices in their respective markets. On the other hand, the price of gasoline and other petroleum products in the world market is influenced by the demand and supply conditions of such that persists in the said global or international market. To illustrate, there exists an organization, which we all know as the Organization of Petroleum Exporting Countries (OPEC).

OPEC is comprised of eleven (11) member countries whose economies heavily rely on the profits earned from oil export activities. Its establishment is primarily for the purpose of ensuring the achievement of stable oil prices, which are reasonable and just for consumers and producers ([www. opec. org](http://www.opec.org)).

Some of its members would include countries like Saudi Arabia, Nigeria, Gabon, and other countries that have the capability and the technology to produce gasoline and other petroleum products. These member countries are actually the ones responsible for the setting of oil's world market price as well as the amount or supply of oil that will be made available to non-oil producing countries, thus affecting the demand and supply condition for the said commodity in the world market.

Oil Price Hikes in the Developed and Underdeveloped Countries

A rise in the price of gasoline and other petroleum products, as mentioned earlier, does cause jitters to any economy. This is so because a rise in the <https://assignbuster.com/gasoline-and-other-petroleum-products-a-political-commodity-essay-sample/>

price of the said commodity disturbs the domestic price environment. It actually translates to an increase in the price of other goods and services available in the economy. To illustrate, a sudden oil price hike in the world market directly affects the budget of every country's government for the purchase of such commodity. Such price hikes in the said commodity, considering its inelastic demand, can be very painful not only to the government but also to the ordinary consumers especially those who are low wage earners. This is so because an increase in the world price of oil eventually translates to a negative effect to every individual's budget for transportation and electricity services.

Such price hikes further limits their already limited day-to-day budget. Likewise, producers' profits are also threatened. A continuous increase in the price of oil actually poses a tendency for producers' profits to become squeezed or worst even choked out. Taking this into consideration in a wider perspective, it can be said that oil price adjustments can also drive up the demand for dollars. This is true for third world and or underdeveloped countries like the Philippines. An increase in the price of oil in the world market actually signals an increase in the demand for dollars, which is actually the scarcest resource of third world countries, as such is being used to pay for oil imports.

Furthermore, if the demand for dollars outstrips the country's dollar reserves, an upward pressure in the peso-dollar rate becomes prevalent. Such pressure eventually translates to an increase in the prices of goods (inflation rate), funds (interest rates), and labor (wage rate). Therefore, as a result the disturbances in the domestic price environment, uncertainties are <https://assignbuster.com/gasoline-and-other-petroleum-products-a-political-commodity-essay-sample/>

created thus contributing to the slow growth of production activities and depriving some people of a simple and convenient way of living.

On the other hand, for most developed countries, an increase in the price of oil does not greatly affect their economy like that of the third world countries. This is so primarily because they actually have the access the scarcest resource of third world countries, dollars. Likewise, an oil price hike in the world market is also considered good for this is beneficial for them.

It actually enables to acquire higher margins of profit. This is true for those developed countries that are members of the OPEC as well as those countries that participate in the speculative market for gasoline and other petroleum products of even nature. This speculative attack on oil prices is actually beneficial for the participants' corporations and ultimately to their respective countries.

Conclusion

In toto, taking into account all the effects of oil price in the world market as well as the effects of geo-economics to geo-politics, it can be said oil is a "political commodity".

References

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