Supply and demand based oil price shocks have different effect on the macroeconomy

January 15 2013

Oil supply related shocks which raise the price of oil decrease gross production in oil importing countries. On the other hand, oil demand related price shocks may even have a positive effect on the gross production of an oil importing country such as the United States.

Therefore, it matters from the point of view of gross production whether it is a supply or demand based price shock.

Marko Melolinna's, M.Sc. (Econ.), doctoral dissertation at the Aalto University School of Economics looks into the effect of oil on the macroeconomy and the predictability of oil price. Melolinna found that shocks which raise the oil price accelerate inflation in oil importing countries. The results of the dissertation are in line with earlier research.

On the other hand, the effect of price shocks on gross production is more complex and in part unclearer.

Prediction of oil price still difficult

The strong fluctuation of oil prices in recent years has had an impact on predictability of price. Unlike in the past, it is no longer clear that futures prices give a statistically inaccurate impression of future oil prices.

Based on the results of the research it seems possible to find a model based on oil futures markets speculation. With the model oil price can within certain periods be predicted more accurately than by coin toss.

More information: Marko Melolinna's, M.Sc. (Econ.), doctoral dissertation in the field of economics, "Essays on Oil and Macroeconomy," will be examined at the Aalto University School of Business on Friday 18 January 2013 at 12 noon. Professor Juha Junttila from the University of Jyväskylä will act as opponent and Professor Pekka Ilmakunnas as custos.

Provided by Aalto University