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Discussion of The nature of oil shocks and the global economy

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Overview

- Paper summary
- Targeted questions
- Open questions

Paper summary

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Objectives and main results

- Objectives

- Clarify the supply vs. demand nature of oil price shocks since the '70s
- Identify breaks in the relationship between oil prices and the global macroeconomy over the period

- Main results

- Oil price shocks are predominantly supply shocks before 1988, demand shocks after 1994
- Change in oil price/global macroeconomy relationship occurs some time between 1988 and 1994 – settle for 1992Q4
- Identify 2008 price drop as demand driven (! Or rather validate econometric analysis on 2007-2009 simulation)

Methodology

- **Driving assumption**
 - Supply vs. demand shock defined by oil price/economic activity co-movements
- **2 symmetrical econometric relationships**
 - Price linear function of activity with 1Q lag
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- **Dataset**
 - Oil price = real price of Brent, US CPI deflator
 - Activity = sum of real GDP of major net consumers
 - 1970Q1 to 2006Q4
- **Extended to TVP, sub-sampling, cyclical correlations, VAR**

Targeted comments and questions

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- Why stop in 2006? **Detach 2008 analysis?**
- On the activity index
 - **Why consider GDP, but not output... or oil consumption** (for nature of shock)?
 - Real GDP PPP or MER?
 - Why restrict to 'big' net consumers?
 - Crude oil vs. refined products?
 - How determining are share-of-oil-consumption weights?
- On the price of oil
 - Why not build a price index consistent with panel?
 - ...Why not build a deflator consistent with panel?

Open comments and questions

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- On the identification hypothesis
 - Too restrictive compared to “common sense”? DSGE feeble basis? Conclusion on 2003-2006 somewhat tautological
 - The “stubborn facts”: wars of major producers have supply impacts; the 2008 price drop is (obviously?) demand driven
- Some key info missing for identification?
 - Measured impacts of (common sense) supply shocks
 - Evolution of oil-intensity of activity
 - Share of oil in total primary consumption
 - Inflation and response (monetary) policies?
- Resource scarcity: a gradual supply shock?
- Predominantly demand-driven shocks optimistic for Green growth?