Supply And Demand In The Gasoline Market Essay, Research Paper

Supply and Demand in the Gasoline Market

The substance known, as gasoline is a mixture of lighter liquid hydrocarbons

used chiefly as a fuel for internal-combustion engines. It is produced by the

fractional distillation of petroleum; by condensation or adsorption from natural

gas; by thermal or catalytic decomposition of petroleum or its fractions; by the

hydrogenation of producer gas or coal; or by the polymerization of hydrocarbons

of lower molecular weight. Gasoline produced by the direct distillation of crude

petroleum is known as straight-run gasoline. This is the type of gasoline, which

we use in our automobiles. It is this which makes gasoline a product that is

indispensable and also makes it highly demandable from the driving public. Thus

the price of gasoline can also have a direct affect on what types of cars people

will buy.

One of the problems with gasoline is that it is, for now, the main fuel for

automobiles and because of that it has become a necessity for most of the many

Americans who own cars and have no choice but to drive to get to work, as well

as in many other parts of the world. It is this constant need for gasoline to

get us around which makes the demand part of it very high. On the supply side is

where OPEC comes in, because they are the main suppliers for the gasoline for

the world at large. The Organization of Petroleum Producing Countries (OPEC) is

a permanent, intergovernmental organization, created at the Baghdad Conference

of September 10-14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The

five Founding Members were later joined by eight other Members: Qatar (1961);

Indonesia (1962); Socialist Peoples Libyan Arab Jamahiriya (1962); United Arab

Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973-1992) and Gabon

(1975-1994). OPEC’s objective is to co-ordinate and unify petroleum policies

among it?s Member Countries, in order to secure fair and stable prices for the

petroleum producers; an efficient, economic and regular supply of petroleum to

consuming nations; and a fair return on capital to those investing in the

industry (OPEC Web site). OPEC?s decisions have a direct effect on the price

we pay for gas, both here in America and around the world. If they decide that

they want to raise the price of petroleum to $30 per barrel, then the price per

gallon at the gas station will go up accordingly. Likewise, if OPEC decides to

lower the price per barrel of gasoline, then OPEC?s decision would have a

direct effect on the market price of the gas at the gas station.

The supply-demand issues in the domestic gasoline market affect all different

parts of the economy. For example, when the price for gas was extremely low

about a year or so ago, people started to purchase more cars and many of the

vehicles purchased were Sport Utility Vehicles (SUV?s). These vehicles have

larger engines and tend to consume much more gasoline than the smaller, more

fuel-efficient cars. (I know this to be true, because during that time I

purchased a Jeep Wrangler, which holds and uses more gas than the smaller car

that I used to own.) Now the price per gallon is at least 60 cents higher then

it was a year ago, which, if you do the numbers as to how much gas people use,

makes it an incredible increase. Since the use of gasoline is an absolute

necessity if you own a car, then you have no choice but to pay the higher price,

since at this point in time alternative fueled vehicles aren?t that cost

efficient.

In this paper I have tried to explain how the supply and demand of gasoline

and its use in automobiles can affect the economy. In conclusion, until such

time that gasoline is no longer needed to run automobiles there will be a

constant demand for the product, and there will always be organizations such as

OPEC around to supply it.

Brue, Stanley L. and McConnell, Campbell R. . Economics: Principles,

Problems, and Policies. Fourteenth Edition. McGraw-Hill Irwin

Gasoline," Microsoft? Encarta? Online Encyclopedia 2000

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The Organization of Petroleum Producing Countries Web Site. http://www.opec.org/193.81.181.14/xxx1/welcome.htm.

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