# Answer to Question 1:

I disagree with most of my peers that an electoral monarchy is a worse form of government than a liberal democracy. I believe that the critique mostly results from the fears of the unknown, the status of democracy as a quasi-religion in the collective consciousness, and false associations.

Except for city-states, there are no actively ruling monarchs in the Western world who could show that this form of governance is competitive. The term “democratic” has become a synonym for “good” in the societal and political context; democracy has developed its common feasts and rituals; and questioning democratic normativity has become socially unacceptable. Certain values potentially universal for all good political regimes, such as civil or economic freedoms, are labelled “democratic” for no good reason—monarchies such as Lichtenstein can be very respectful of the so-called “democratic norms,” such as freedom of speech and association.

The critics rationalize these biases with the following three reasons: 1) the concentration of power is dangerous, 2) even the best elite is corruptible, 3) a single ruler may not represent the best interests of the population. These reasons may seem sound at first, but the following examples counter them easily. The CEO of Apple is elected by the board and shareholders, not the consumers. The Pope is elected by cardinals, not the lay faithful. The President of Harvard is elected by Harvard Corporation, not the entire body of faculty, students and workers. Yet Apple serves well its global consumers, the Pope is popular among the faithful, and the President of Harvard successfully fundraises for the university community.

These positions are, of course, less political than governing over a large country. Nonetheless, presiding over a business offers no fewer incentives for dishonesty, over spiritual matters requires no less responsibility, and over a top university carries no lesser prestige. What ultimately makes good governance is good culture: the beliefs, norms, and values that shape the ruling elite. Good culture not the only possible protection mechanism, however. Just like democracy, a monarchy can redesigned and take many forms with appropriate checks and balances. What can make an electoral monarchy potentially even superior is that experts motivated by reason—not crowds swayed by whim—choose the head of state.

# Answer to Question 2:

With the stalled economic recovery, the prolonging Russo-Ukrainian war, and the ongoing negotiations with Venezuela, Iran, and Saudi Arabia, the only certainty is that we live in times of uncertainty. With my empirical analysis based on this assumption, I argue that the optimal investment strategy for the upcoming 6-12 months is to short oil.

In times of peace and prosperity, following trends is the best method of investing in oil. This is because factors that determine oil price and changes in oil price are easy to follow and predict, and the trend reflects these straightforward predictions. In fact, research has shown that even the best performing models have little to no advantage over simply following the market trend.[[1]](#footnote-1)

In times of risk and uncertainty, however, the factors that determine oil price are more volatile. The determinants of oil price shift by more, more often, and more rapidly. Thus, most investors in the market cannot predict oil prices well, and current trends give no clue.

Investors equipped with carefully developed statistical models may turn times of uncertainty and risk into times of opportunity and return. The statistical models are trained on historical data on oil price and its predictors. Thus, they can capture large and rapid changes in oil price predictors and translate them into the most likely outcomes.

To craft my medium view on oil, I built my model to satisfy these three criteria: 1) designed for the times of uncertainty; 2) proven to work well over the horizon of 6-12 months, 3) easy to interpret. Leading economic research has shown that the Vector Autoregressive (VAR) model outperforms other oil price forecasting models in times of uncertainty and in the medium term.[[2]](#footnote-2) This method is conceptually simple, and the results easy to understand.

Data from federal agencies[[3]](#footnote-3) indicate that a decrease in Brent oil prices is predicted 6-12 months ahead by a decrease in global real economic activity, an increase in interest rate, and the appreciation of dollar with respect to the currencies of oil-producing countries, and (somewhat counterintuitively)[[4]](#footnote-4) a decrease in oil production.

Over the past nine months, interest rates have been increasing, dollar has been appreciating, and oil production has been increasing. These forces put a downward pressure on oil prices. However, real economic activity was fluctuating and started increasing in January, which may put an upward pressure on oil prices.

We do not know which of these factors have the largest impact in our investment period. However, my model is trained to figure this out. It looks at the price and the factors at different points in the past and comes up with the best formula. Then it translates the changes in recent months to predictions about the prices of oil in the upcoming months. According to my model, it is more likely than not that oil prices will be going down over the next 6-12 months into the future. (See the figure below.)

I would execute the trade by an indirect exposure method: short selling an ETF of stocks of companies in the oil industry such as the PXE. Compared to futures, options, and commodities funds, this choice is less sensitive to oil price fluctuations. It also minimizes unnecessary exposure to oil as a commodity. I would close the trade when the model no longer predicts a downward trend based on new data supplied.[[5]](#footnote-5)

Chart, histogram

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**References**

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1. Source: Baumeister et al., 2015. In technical terms, all alternative models have the Mean Squared Prediction Error very close to that of the *no-change* forecasting model. [↑](#footnote-ref-1)
2. Samya Beidas-Strom et al., 2015; Baumeister et al., 2015; Alquist et al., 2013. [↑](#footnote-ref-2)
3. In particular, 1993-2022 monthly data retrieved from the following sources: U.S. Energy Information Administration, the Federal Reserve Bank of Dallas, the Federal Reserve Economic Data, the OECD Stat Portal, and the BP Statistical Review. [↑](#footnote-ref-3)
4. According to the economic theory, an increase in supply leads to a decrease in price. However, decisions about an increases oil production may reflect increases in demand or other factors that later translate into price increases. This may explain the positive correlation. [↑](#footnote-ref-4)
5. Note that I would keep using the VAR model as long as times are uncertain, i.e., the crude oil volatility index (OVX) remains above 42 points, the 75th percentile of its historical average. [↑](#footnote-ref-5)