**EAS 375**

**Spring 2011**

**Lecture Questions**

**Rise of OPEC**

**What factors have played a role in the price of oil since its initial discovery to the present?**

- Greed

- Stupidity

- Arrogance

- Supply and demand

- Regional and international politics

- Oil companies versus producing nations

**What was significance of the Red Line Agreement and who was Calouste Gulbenkian (Mr. 5 percent)?**

Company could explore in the line for oil but not outside that line. Creation of an oil monopoly or

cartel. Gulbenkian, Armenian, would get 5% of the shares of the oil company. He draw the line on

the map.

**What was the significance of the Achnacarry Agreement in 1928?**

Oil company had their own cartel. Divided regions. Set number of productions and price for each member. Stabilize prices.

**Why did the major oil companies “hold all the cards” and could dictate the terms for the production of oil in producing nations?**

Oil companies had all the resources to develop oil (know-how and technology), oil countries could

not find and produce. They set crude prices.

**It is said of the officials Anglo-Iranian Oil Company (present day BP) that “Never have so much been lost by so few in short a period of time.” What is meant by this phrase refer?**

Refer to Iran.

**What role did the United States and England play in the putting the Shah in power Iran in 1953?**

CIA and British overthrew Mossadegh, fear of soviet union intervention. Recover BP’s oil confession.

**What was the basic agreement between Saudi Arabia and the United States that Roosevelt and King Saud made in 1945?**

US would protect the house of Saud, Saudis would insure oil supplies to the West.

**What is meant by “posted price” of oil during the 1950’s and how did it affect the producing nations?**

*posted price* which is a reference figure used to compute taxes and royalties paid to the Governments

Posted price is the price that a company sells a commodity (benchmark). Production increases drove market prices down and eroded profits of the oil producing countries.

**What are the basic requirements for a successful cartel?**

- Control supply

- No readily alternative substitute for the product

- Keep price low enough to discourage looking for another substitute

- Control activities of the member of the cartel (production)

**Why have producing countries that comprise OPEC had so much trouble maintaining their production quotas?**

Because members of OPEC are tempted to cheat to make more money. (Collective action problems).

**Why did price controls initiated by the federal government in the early 1970’s make us more dependent on imported oil?**

Domestic production and exploration decreased.

No incentive to lower consumption, energy conversation.

**Why did the United States fail to institute any significant energy conservation measures until the “second oil crisis” in the late 1970’s?**

No incentives because of price controls from the government.

**What led to the significant increase in “oil reserves” in the OPEC nations in the mid-1980’s?**

Because of quota: country can increase production by inflating actual reserves.

**What is meant by the phrase the “lost decade” in the developing nations of the world?**

Most developing nations spent the money poorly. (corruption, purchase military weapon..)

Oil collapsed so developing countries economy collapsed.

**Has Saudi Arabia lived up the agreement that Roosevelt and King Saud made in 1945?**

Yes, Saudi Arabia has increased production during wars.