**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.