Wiley HIGHER EDUCATION

MICROECONOMICS AT WORK EXERCISE

MANIPULATING PRICES

REFERENCE: **'OPEC unlikely to cut oil production'** (by Leigh Thomas), *The Courier-Mail,* 31 January 2005, p.21.

CHAPTER RELEVANT TO THIS EXERCISE: 3

CONTEXT

The determination of price in a free market results from the interaction of demand and supply for the good or service in question. The free market price can be *modified* – upwards or downward – either by an outside influence (a government) and/or if a buyer or seller *in* the market (or a *group* of buyers and sellers working together) is able to exert *economic power*. The case discussed in this article is the market for crude oil and the way in which a group of producers and sellers, formally working together as the Organisation for Petroleum Exporting Countries (OPEC), is able to control the *supply* of petroleum to the world market and thus influence the *price* of oil.

QUESTIONS

1. Explain the motive behind the formation of OPEC. Why is the concept of price elasticity of demand relevant?

2. Does OPEC control the whole market? (Does it *need* to?)

3. What are the 'non-economic' considerations behind decisions of OPEC in regard to petroleum production levels?

4. What may make members countries disagree with a decision made by the majority of OPEC members. What may lead them to not adhere to a majority decision?

5. What has been the trend in oil prices in the early 2000s and why has this occurred?

© Economics at Work
John Wiley & Sons Australia, Ltd