

## CHAPTER VI

### CONCLUSION

In conclusion, effects of high oil prices on the global economy can be summarized by at least four main channels through which rising oil prices influence an economy.

#### *1. Demand Effects*

Higher oil prices reduce the spending power of consumers and cause a reduction in demand for all of their spending categories. More spending to fill one's gasoline tank means that less income is available for movie tickets, furniture, or other items.

#### *2. Supply Effects*

Rising oil costs eat into companies' profit margins when they are not able to pass these costs on to their customers. This is especially true for firms in energy intensive sectors, causing them to reduce services or cut production levels. For example, an airline facing a 100% increase in energy costs will be cash-squeezed and will cancel flights, lay off workers, and cancel orders for new planes.

#### *3. Policy Effects*

Although central bankers around the world pay more attention to "core inflation" than "headline inflation," higher oil prices will spark fears of a price-wage spiral, and will cause monetary authorities to tighten credit conditions. This, in turn,

will weaken investment spending, housing, and sales of durable goods, like automobiles

#### *4. Effects on Confidence and Financial Market Psychology*

Higher oil prices hurt both consumer confidence and investor confidence. As equity prices decline, household wealth declines and the economy is weakened. These effects will be especially strong when the cause is a major geopolitical event, such as a terrorist attack.

#### **A. Summary of Higher Oil Price on a Global Scale**

Rapid rise in oil price leads economic slow down worldwide. In terms of economy, it spurs general inflation. Expensive oil lessens the value of the money as well as purchasing power, because, higher cost of gasoline is usually included with the transportation cost. As a result, goods and services cost turn higher, compared with reduced purchasing power. This implies for higher living costs that would hurt everybody in a society. Then, domestic demand is depressed, many businesses minimize their size by laying off their workers, and hence lowering employment and incentives for many entrepreneurs to compete in a free market, capitalist economy.

Rising oil price has turned into a global issue, as today the economic development of most nations relies greatly upon consumption of crude oil. This phenomenon reaffirms the fact that global economy is driven by the force of globalization, and likewise characterized by economic interdependence. Regarding

effects of higher price of crude, different nations are affected in different ways, depending on levels of industrialization and dependency on oil.

Up to this point, the impact is felt in the level of macro economy, inflation calls for such financial regulations as raising interest rate. This of course contributes to decline in consumption, production and investment in all sections. Economy, then, comes to slow down, stagnation and recession. Evidence is to be seen in a drop of GDP. Additionally, this would also put strain on government balance sheet, from less revenue deriving from taxation on oil. Taxation on oil provides some governments with massive amount of money as a main source of income. Furthermore, the price spike also has a severe impact on development. Development is likely to cease, foreign and domestic investment would slowly be diminished eventually.

However, oil price increase is not wholly a pain. It would encourage Research and Development R and D in alternative and renewable energies. Too, formerly unattractive energy investment would be revitalized and become more attractive in world stock market.

### **B. Policy Recommendations**

At this period of time where oil is rare and unaffordable, all of us, to survive in this very age, are required to adapt our lifestyle in an everyday life in response to the crisis. At national level, the governments must be responsible for

addressing the problem, and attempting to formulate and implement policy or regulation, that can effectively and efficiently halt or at least relieve brutality of this phenomenon. There are various suggested means in tackling this setback. The final part of this paper will, however, explore several approaches considered most effective, with regard to my personal analysis. In Japan, there was a policy on energy known as the 3 Es: Energy Security, Economic growth and Environmental protection. On the other hand, I would suggest the 3Is: Improvement in energy efficiency, Infrastructural Development and Intensive in R & D in substituted and renewable energy.

### ***I. Improvement in energy efficiency***

Referring to using least oil and energy for greatest utility, this approach can be applied in all levels, from individual, societal and governmental levels. Simply, some regulations like, energy saving, car pooling or taking a walk or bike require not only intensify promotion by the government, but also cooperation from everybody in the society. People should be encouraged to use public transports, instead of private vehicles.

### ***II. Infrastructural Development***

It signifies improvement by means of constructing infrastructure to accommodate mass transportation. This approach calls for development and extension of mass transportation, in order to persuade cars users, to turn to use public facilities. By traveling with public transports, would save massive amount of energy and reduce enormous expense on imported energy. In Thailand, an extension of BTS or MRT

would attract a number of passengers, traveling in jammed urban areas, because it offers more comfort and convenience when getting around in Bangkok. Moreover, another advantage is avoidance of regular traffic congestion, minimizing a chance of passengers' late arrival.

### ***III. Intensive R&D in Renewable and Substituted Energy***

This policy would be highly effective solution in a long run. Investment in energy R & D suggests challenge to vitality of oil availability. Research and Development in alternative energy source must be prioritized as top agenda within domestic as well as international stages. Governments alone can hardly accomplish innovation of energy replacement. Although chance of success is small, I believe, one day the world will stand on its feet without concern on availability and price of oil because new, substituted and sustainable source of energy will replace existence and significance of conventional crude oil. However, to reach the goal, cooperation from numerous institutions, from states, IOs, NGOs, MNC or even single individual will substantially be required.

It is said that transportation is the only sector still critically dependent on oil. But that dependence might come down in the decades to come with the development of other technologies like fuel cells. Most of these alternative fuels are not commercially viable as of now. But they might be if oil does touch \$100 a barrel, as is predicted.