

**ECONOMICS
HOMEWORK ASSIGNMENTS
DUE FRIDAY, MARCH 6, 2009**

I. Supply and Demand Reading

\$100 oil won't prompt supply hike - Opec

by Simon Webb on Thursday, 21 February 2008 *Reuters*

Opec (Organization of Petroleum Exporting Countries) will not change its supply levels in response to fresh record high prices above \$100, Qatar's oil minister said on Thursday. (The sale of oil has dominated the Qatar economy since 1949, when it was first commercially produced there.)

"We will not just react to \$100 oil," Oil Minister Abdullah Al-Attiyah told Reuters by telephone. "Opec will move when it sees physical demand for its oil."

US crude future hit a record of \$101.32 on Wednesday on a surge of investor cash into commodities.

Concern that Opec will hold or even cut output when it meets on March 5 as well as uncertainty about Venezuelan and Nigerian supplies, helped send prices to triple digits.

The surge this week was due to speculation and international political tension, not due to any problem with the fundamentals of supply and demand, Attiyah said.

"The timing of this rise is very strange," Attiyah said. "The price is going the wrong way for the season. That shows it is related to speculation and politics. Companies are lowering their requests for oil in March as usual ... so it doesn't seem there is demand for more oil."

Attiyah said it was too early to say whether Opec should change its output policy at the March meeting.

"I cannot say if we will reduce supply or not, or what we will do," Attiyah said. "Who knows what the market will have done by then?"

Demand in the second quarter typically falls as the northern hemisphere winter ends. Refiners take advantage of the dip in demand to do maintenance.

Despite the expected drop in demand, high prices and supply uncertainty would make it difficult for oil to cut output, Libya's top oil official and Opec sources said this week.

Analysts have suggested that Opec members could trim supply quietly if needed to stop prices falling too far, but were unlikely to announce a formal reduction in its supply target at the meeting.

Opec kept its output steady at its previous meetings in December and February, despite calls

from consumers for more oil to cause high prices.

Nigeria's oil output has been hit by militant attacks and fellow Opec member Venezuela is threatening to halt oil sales to the United States over a dispute with the world's biggest oil firm, Exxon Mobil. Attiyah declined to comment on the dispute and what Opec would do if Venezuela cut US sales.

Qatar is one of the smallest producers in the 13-member Opec. The group pumps about 40% of the world's oil.

II. Supply and Demand Questions

Answer the following questions *on a separate sheet of loose-leaf paper* based on our class discussions and your reading of the article above.

1. Why might Oil Minister Abdullah Al-Attiyah want to avoid increasing supply of oil?
2. Why might the United States' government and business interests be so interested in the \$100 price level for a barrel of oil? (For this question use your knowledge of people, more than your knowledge of economic systems.)
3. What factors might have had an impact upon the soaring prices of oil? How do these factors fit in with the laws of supply and demand?
4. What might an increase in supply do to the price of oil?
5. Who would most likely benefit from an increased supply?

III. Political Cartoon – Supply and Demand



Answer the following questions *on a separate sheet of loose-leaf paper* based on our class discussions and your analysis of the cartoon.

1. What is the resource that is central to this cartoon?
2. What is mental state of the person pictured in this cartoon? Explain why he feels this way.