

Chapter 16

Will BRENT Reach the \$300 Mark?

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ABSTRACT

Petrol crises have crippled the economies of the developed nations many times in modern history. Still, fossil fuels are an important source of transportation, and price changes deeply affect the social and economic wellbeing of the citizens. While research on alternative fuels is on the rise and there are many incentives, the reliance on fossil fuels is not diminished. Lately, as a result of the conflict in Ukraine, petrol prices went up again. This chapter will shed light on the past crises and will try to examine how much further petrol prices can go. Also, the relationship between energy prices and subjective wellbeing will be illustrated with examples from the literature. The chapter will also offer some suggestions for a sustainable green world.

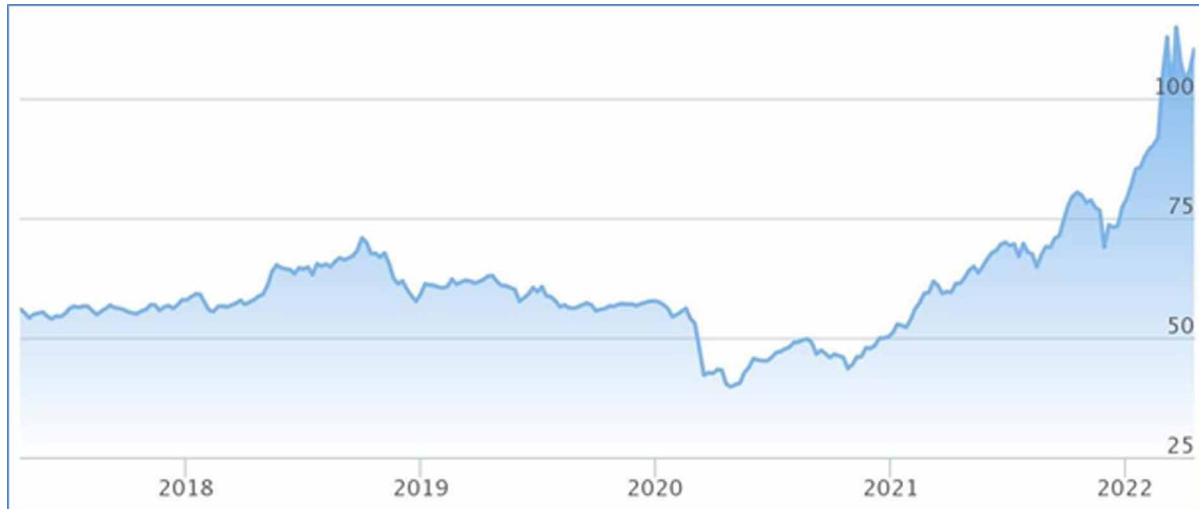
INTRODUCTION

Petroleum prices have always been a cause of great concern for governments in the West especially when it comes to being reelected for office and when opinion polls are showing decline in popularity. Petroleum prices are generally referenced by the Brent Petrol prices although there are many different petroleum markets around the world. West Texas Intermediate or WTI is also another petrol price index that is widely used around the world. While green energy movements are gaining speed around the world, still petroleum is the main source of passenger vehicles fuel and increases in the prices hurt the household economy the most. Popular culture also fuels this and motivates politicians to find a way to reduce the prices. For this reason, it is important to study the trends in petrol prices and risks of petrol prices reaching certain critical threshold levels. When we look at the last five year movement of the oil prices we see a relative area of stability followed by a dip because of the Covid pandemic then a rise following the increase in production and consumption around the world. Figure 1 provides the time series chart of the Brent oil prices in the last five years. We can observe here interesting extreme lows

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Figure 1. Last five years Brent prices

Source: Dynamic chart generated by bloomberght.com/emtia/brent-petrol



and highs in a time period of less than two years. For example the lowest value was recorded on April 21 2020 of \$9.12 per barrel due to the lockdowns occurring as a result of the global pandemic which affected the industrialized parts of the world and slowed the consumption of energy. We also observe a high on March 8 2022 of \$133.18 per barrel which is obviously a result of the military conflict between Russia and Ukraine which started on February 24. There is relative stability between 2017 and the 2020 pandemic with prices around \$50 a barrel.

Factors that may be effective in the increase of petrol prices may be due to manufacturing sector demand or supply side shortages. Supply side shortages may be due to conflicts such as wars or refinery problems. Supply side shortages may also be intentional as in the OPEC countries restricting the flow of oil to increase prices and in response to political decision by the USA. Also as it happened after the Covid pandemic the increase in production suddenly after a long period of dormancy may stimulate the increase in petrol prices. With the exception of countries that are net exporters of crude oil, rising prices mean that prices of staples such as food also increase. Therefore the increase in petrol prices will definitely affect the economic well-being of the developing countries the most. In the developed world also this increase may particularly hurt because of the use of passenger cars and no viable alternative being present for individual transportation. This paper will proceed as follows: First the literature concerning the relationship between petrol price and economic well-being will be discussed. Following that the econometric studies about the past rises and falls of the petrol prices will be presented. Finally the outlook for the rest of the 20's will be forecasted using numerical techniques. The chapter will then end with a conclusion emphasizing the investment into non fossil fuel alternatives for a green future.

RELATIONSHIPS BETWEEN ECONOMIC WELL-BEING AND PETROL PRICES

One of the determinants of the economic well-being of a country can be stated as the rate of inflation. Another very important measure is the rate of unemployment. Perhaps these two measures could define

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