

Global Oil Price Collapse: Contributory Factors

K.R. Liyanaarachchi¹

Abstract

The recent global oil price plunge has resulted in creating both winners and losers, while leaving countries with high levels of oil consumption as winners and oil exporting countries as losers. A satisfactory explanation of this price decline is required in order to create a win-win situation for both oil exporting and importing nations. This study examines the major causes of the drastic decline in oil prices the world experienced during the past few years, particularly in 2014. Quarterly data from the 1st quarter of 2011 to the 2nd quarter of 2015, obtained from the Organization of the Petroleum Exporting Countries (OPEC) Monthly Oil Market Reports are analyzed using regression analysis, correlations and percentages. The results of the regression analysis indicate the fact that the growth in both OPEC and non-OPEC oil supply has contributed to the global oil price plunge. The negative correlations further affirm the fact that the increase in OPEC and non-OPEC oil supply has a huge impact in declining oil prices, while non-OPEC oil supply being the most prominent factor affecting the prices. Moreover it can be stated that the lower growth in global oil demand compared to the growth in global oil supply (both OPEC and non-OPEC) has also become a contributory factor to the oil price collapse in 2014.

Key Words : *Oil Price Decline, OPEC, Non-OPEC, Global Oil Demand, Regression*

¹B.A. (Special) Economics, University of Kelaniya
kalsha001@gmail.com

