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"Forty Years of Oil Price Fluctuations: Why the Price of Oil May Still Surprise Us"  
*CFS Working Paper No. 525*

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It has been forty years since the oil crisis of 1973/74. This crisis has been one of the defining economic events of the 1970s and has shaped how many economists think about oil price shocks. In recent years, a large literature on the economic determinants of oil price fluctuations has emerged. Drawing on this literature, we first provide an overview of the causes of all major oil price fluctuations between 1973 and 2014. We then discuss why oil price fluctuations remain difficult to predict, despite economists’ improved understanding of oil markets. Unexpected oil price fluctuations are commonly referred to as oil price shocks. We document that, in practice, consumers, policymakers, financial market participants and economists may have different oil price expectations, and that, what may be surprising to some, need not be equally surprising to others.

"Time Lags in the Pass-Through of Crude-Oil Prices: Big Data Evidence from the German Gasoline Market"  
*USAEE Working Paper No. 15-226*

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This article investigates the pass-through of global Brent oil notations to fuel prices across the oligopoly of retail majors in Germany. We assemble a high-frequency panel data set that encompasses millions of price observations and allows us to distinguish effects by brand. Upon
establishing a cointegrating relationship between fuel and crude-oil prices using daily data, we estimate an error-correction model (ECM) and find that (1) the pass-through of oil prices critically depends on the number of time lags included in the ECM, (2) strict adherence to classical information criteria for determining lag length yields extremely long pass-through durations, and (3) the estimated impulse response functions are virtually identical across brands, irrespective of the lag count, suggesting a high degree of competition among brands.


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Access to natural resources creates a political conflict between the expected economic winners and their environmental opponents. To examine how such access influences the behavior of elected officials, we exploit the rapid and unanticipated technological breakthroughs in the 'fracking' of shale gas. During the past decade, shale gas production around the Marcellus shale formation in northeastern United States expanded rapidly. In a quasi-experimental design, we examine how access to shale gas in electoral districts changed the voting record of House Representatives on environmental policy relative to neighboring districts without such access. We find a strong negative effect: in districts 'treated' with shale gas, elected officials become 15-23 percentage points less likely to vote in favor of the environment. The effect is the strongest among districts in which elected officials consistently voted in favor of the environment before shale gas discovery. Furthermore, the effect is driven by the strong electoral performance of Republicans in shale-affected districts. The economic gains promised by shale gas give anti-environmental candidates an electoral advantage. When these candidates come into power, they vote against the environment also on issues unrelated to fracking. These results show how access to natural resources can put downward pressure on environmental regulations across the board.

"The Nordic Model and the Oil Nation"

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This paper investigates the long-run economic effects of large natural resource endowments, through a comparative quantitative case study. Focusing on three economic features of the so-called Nordic model, namely low income inequality, high labour productivity growth, and high welfare spending, this study estimates the shocks to these key features in Norway after the country became one of the world's largest oil exporters. A synthetic control unit constructed by weighting Nordic countries that closely resemble the economy of Norway without being oil producers provides the most reliable comparison unit to estimate the causal effects constituting the paper's threefold contribution. First, results show that the resource windfall contributed to relatively higher top income shares, adding natural resources to the set of drivers of income inequality in Norway. Second, the resource windfall boosted labour productivity. Third, resource revenues contributed to financing the steadily increasing gap between Norway and other Nordic countries in the degree of welfare generosity, with generosity increasing in Norway relative to the others. Sensitivity tests through in-time placebo tests and difference-in-differences estimations confirm the validity of these results.

"China: Credit, Collateral, and Commodity Prices"

HKIMR Working Paper No.27/2015
We review how China has become a dominant influence in global commodity markets due to the economy’s size and commodity intensity. We then focus on the emergence of China’s credit market as a new influence on commodity prices using a vector autoregression model and recursive identification. We find that a 1 percentage point (ppt) surprise increase in China’s bank lending results in statistically significant price increases of 10-12 percent for some base metals, including copper. This contrasts with a 1 ppt shock to China’s industrial production which leads to a statistically significant change of 7-9 percent of aluminum, copper, and crude oil. We suggest that one reason for the large influence of China’s credit aggregates may be the important role that some commodities play as collateral for lending in a financial system still bedeviled by information asymmetries, particularly for private sector borrowers.

"News Shocks in Open Economies: Evidence from Giant Oil Discoveries"
IMF Working Paper No. 15/209

This paper explores the effect of news shocks on the current account and other macroeconomic variables using worldwide giant oil discoveries as a directly observable measure of news shocks about future output - the delay between a discovery and production is on average 4 to 6 years. We first present a two-sector small open economy model in order to predict the responses of macroeconomic aggregates to news of an oil discovery. We then estimate the effects of giant oil discoveries on a large panel of countries. Our empirical estimates are consistent with the predictions of the model. After an oil discovery, the current account and saving rate decline for the first 5 years and then rise sharply during the ensuing years. Investment rises robustly soon after the news arrives, while GDP does not increase until after 5 years. Employment rates fall slightly for a sustained period of time.

"Long-Short Commodity Investing: A Review of the Literature"
Journal of Commodity Markets, Invited publication, Forthcoming

This article reviews recent academic studies that analyze the performance of long-short strategies in commodity futures markets. Special attention is devoted to the strategies based on roll-yields, inventory levels or hedging pressure that directly arise from the theory of storage and the hedging pressure hypothesis. Alternative strategies based on past performance, risk, value, skewness, liquidity or inflation betas are also studied, alongside with recent attempts to enhance performance by modifying or combining the original signals. Overall, the literature highlights the superiority of being long-short in commodity futures markets relative to being long-only.