

Analyzing the Oil Price-GDP Relationship and its Historical Changes

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This paper analyzes the impacts of high oil prices on macroeconomy and their historical changes by each country. Working on an analytical model, we show that the oil price-real GDP / nominal price elasticities can be roughly estimated from current oil prices, GDP and oil imports and exports. Being different from large-scale modeling, our approach is based on simple algebra with clear assumptions, which provides policy makers with more transparent and useful insights: the vulnerability of economies vis-à-vis oil price increase, in light of both GDP and the price level, had sharply declined in the late-1980s and stayed low through 1990s; Euro-zone countries in these days are becoming vulnerable more than before while Japan stays firm.

Keywords:

World oil prices, Real GDP, Nominal prices, Price elasticity