

Re: How are oil prices set? (Pls. answer my dumb questions) -- basics requested

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- *From:* allan.sanger@xxxxxxxx
 - *Date:* Tue, 17 Jun 2008 18:09:49 -0700 (PDT)
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On Jun 16, 7:09 pm, "msadkin...@xxxxxxxx" <msadkin...@xxxxxxxx> wrote:

On Jun 16, 6:46 pm, allan.san...@xxxxxxxx wrote:

On Jun 16, 6:18 pm, "msadkin...@xxxxxxxx" <msadkin...@xxxxxxxx> wrote:

I was going to suggest a hypothetical in which a "Martian" asks this question, but that seems superfluous since the average American (me) knows about as much as an extraterrestrial might about this question. Possibly less.

Oil is a commodity produced by many nations and often by many private companies within each nation. So exactly how is "THE" price of a barrel of oil determined?

I understand that there are different varieties and grades of oil, but that price differences between "Brent, WTI, and the Opec basket" are not large and that "crude prices closely correlate with one another". For the moment then, rather than be overwhelmed with

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detail, let's imagine we're talking about some generic but highly sought after "oil" that is produced by many countries and many companies within each country.

Why isn't there a variety of prices depending on who is offering the product? Or is there?

I understand that the price of oil is denominated in U.S. dollars. Is this correct, or are there significant exceptions? And is this the same as saying that oil must be bought using U.S. dollars? I seem to recall something about Iran requiring payment in Euros or Yen or something.

I guess this ought to be enough for now, though many questions remain to be asked.

Please answer directly (no hyperlinks) and as succinctly as possible. The reason I ask for no hyperlinks is that everybody and their uncle may have different answers to the question. I could search the Net myself, but am trying to concentrate the answers here in this thread. If you don't feel capable of answering this question personally here, in your own words, then probably your grasp of the matter is tenuous anyway.

Please note that (mirabile dictu) I have no agenda to advance. This is not a trap, or a pretext for advancing my own opinions, since I

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have none. I may ask pointed questions in response. I may express puzzlement about apparently contradictory elements. I may request more detail. I have no axe to grind because I have no basis for any opinion as yet.

That's about it. Thanks in advance.

You called it a commodity – and the economist would define it as such. In the most simplistic of terms it is set by supply and demand. Commodity markets are as close to perfect competition in terms of price setting as one sees in an imperfect world.

al– Hide quoted text –

– Show quoted text –

I'm sorry, but that's vague rubbish which doesn't begin to answer my questions.

"Supply and demand" is a vague general principle.

Not to economists.

When different countries and different companies supply the same basic product, exactly what mechanisms set the price as demanded by each of these independent (?) suppliers?

The suppliers are price takers, not price setters.

Why is a barrel of "oil" produced in one country under one set of economic conditions (including production methods, labor costs, local supply quantity, and proximity to the buyer's market) the same price as a barrel of this same "oil" produced in a different country under a different set of economic conditions?

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Because no one gives a poop what it costs you to produce the oil.

Or is it? Why isn't oil produced by different companies, even within a single country, offered at various prices, if these companies are in competition with one another? Or is it?

Because its a commodity market – and the market observes the basic tenets of perfect competition.

Why is there so far only one answer (and that one grossly inadequate) to a basic question of fundamental importance, in an Internet thread supposedly read by literally millions of persons all over the globe?

Your ignorance of the concept of commodity and perfect competition are not indicative of inadequacy in the response.

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