

The law of the market: demand and supply

From the mid-1980s to September 2003, the price of a barrel of crude oil was generally under \$25/barrel. During 2003, the price rose above \$30, reached \$60 by 11 August 2005, and peaked at \$147.30 in July 2008.

[...]World crude oil demand grew 1.76% per year from 1994 to 2006. [...] Demand growth is highest in the developing world. [...] As countries develop, industry, rapid urbanization and higher living standards drive up energy use, most often of oil. Thriving economies such as China and India are quickly becoming large oil consumers. China has seen oil consumption grow by 8% yearly since 2002, doubling from 1996–2006.

[...] An important contributor to price increases has been the [stagnation] in oil supply, which has continued since oil production surpassed new discoveries in 1980.

“2000s energy crisis”, Wikipedia

Question 1: Illustrate the rise in oil price in 2005-2008 with a diagram.

Question 2: In 2008-2009, the price of oil suddenly dropped to \$40 from more than \$140 in 2008. Can you guess what happened?

Question 3: Illustrate what happened with a diagram.

For those who need a cappuccino, latte, or frappuccino to get through the day, coffee drinking can become an expensive habit. On August 20, 2009, the habit got a little more expensive. On that day Starbucks raised its drink prices by 10–15 cents per cup for most drinks. Starbucks does not often raise its prices. What changed?

Mainly the fact that the cost of a major ingredient—coffee beans—had gone up significantly. In fact, coffee bean prices nearly tripled between 2002 and 2009. Specifically, the main cause of rising bean prices was a significant decline in the supply of coffee beans from the world's two leading coffee exporters: Brazil and Vietnam. [...] In Vietnam, the problem was weather: a prolonged drought sharply reduced coffee harvests.

Paul Krugman and Robin Wells, *Essentials of Economics*, 2d edition, 2011

Question 1: Illustrate with a diagram the consequence of the drought in Vietnam on the coffee market.

Keywords :

barrel : baril

oil : pétrole ; crude oil : pétrole brut

to peak : to reach a maximum

Supply : offre

habit: here it means an addiction

cost: coût

coffee bean: the little fruit from which the coffee drink is made.

Drought: a long period of little or no rainfall