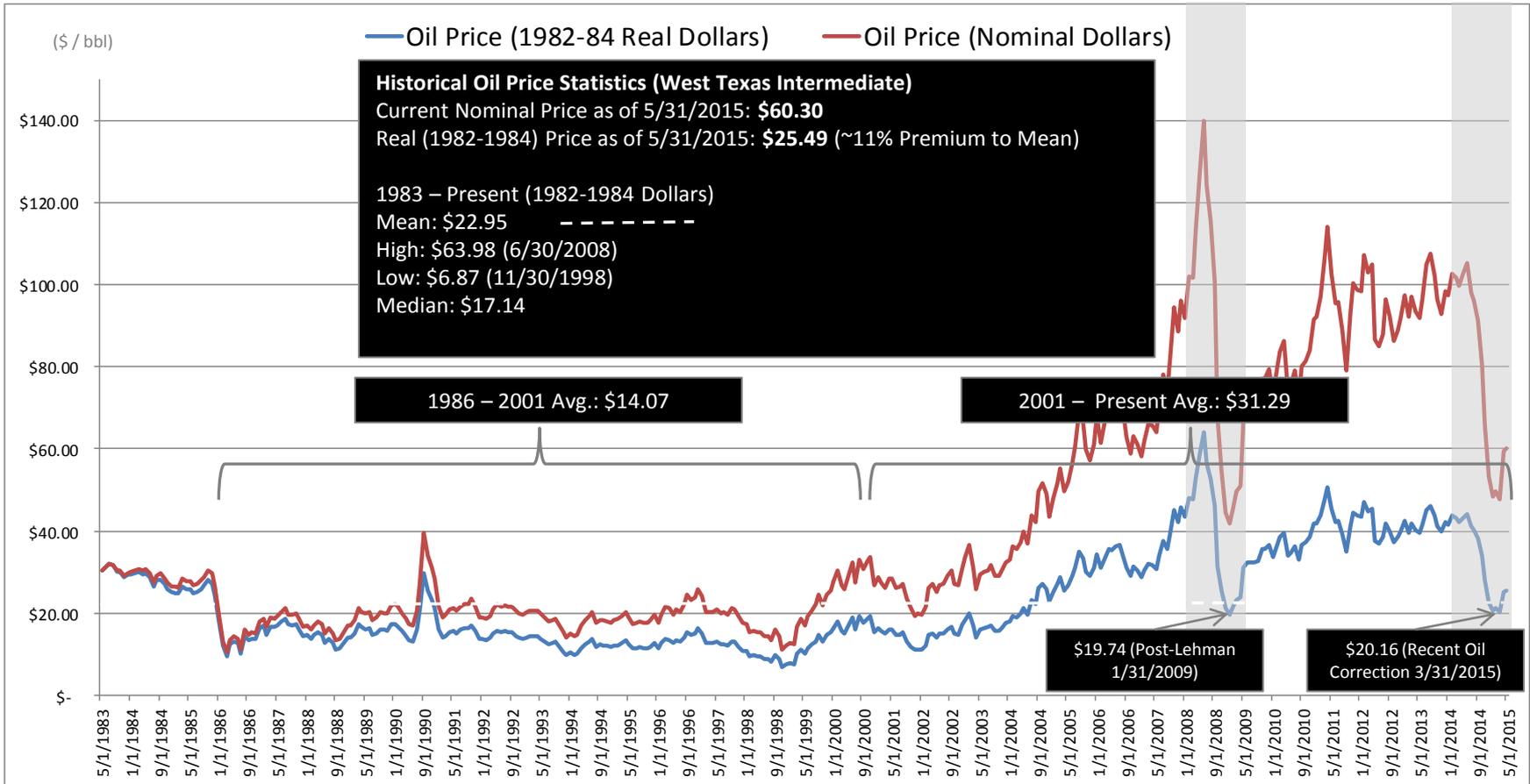


In historical terms, 2000s look anomalous

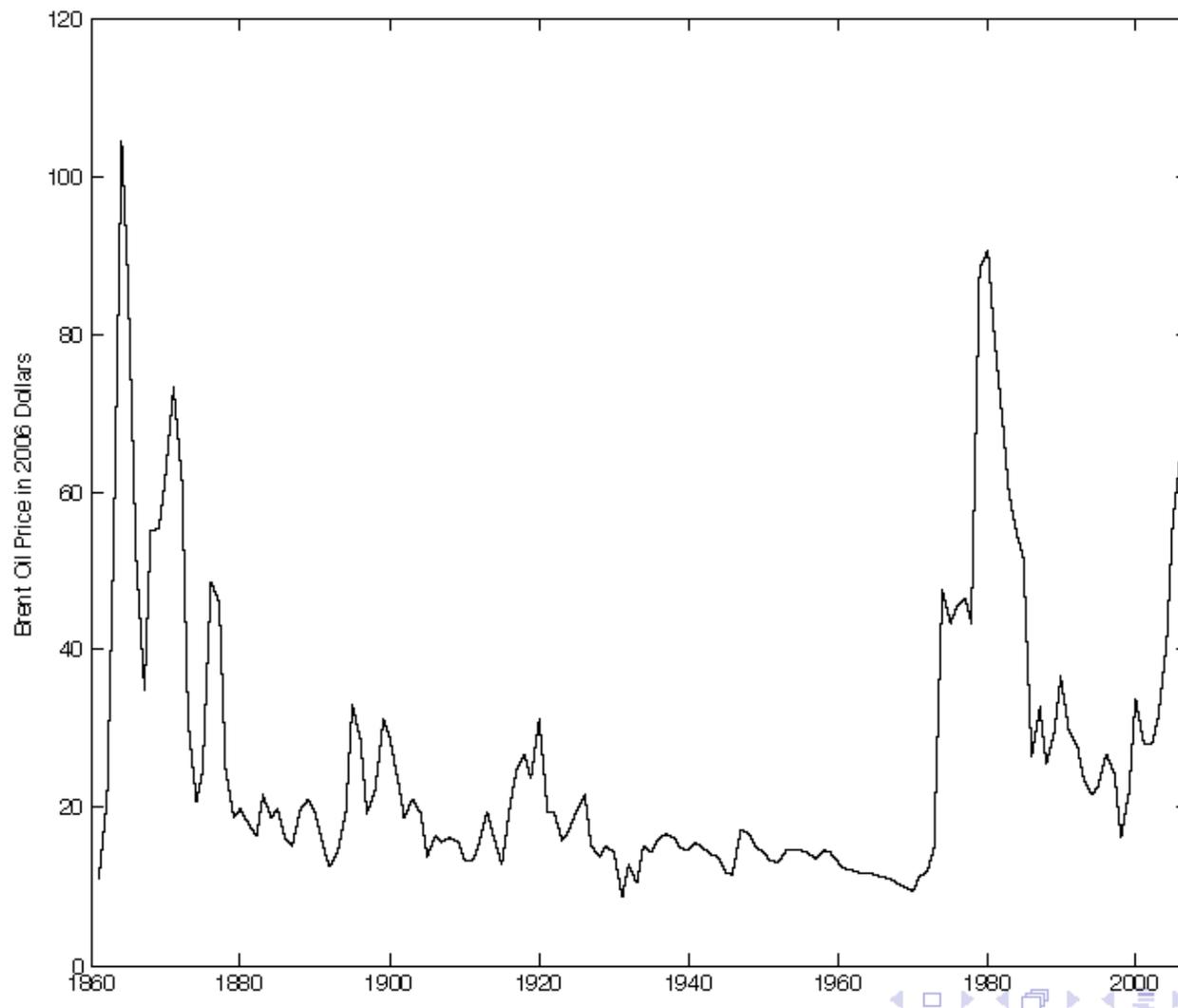
Monthly Nominal and Real Oil Prices from May 1983 -2015

- As US Shale production continues to come on line, coupled with technological advances in oil and gas recovery, oil price cycle could shorten
- 1986-2001 average price implies a potential low of ~\$33/bbl in nominal terms



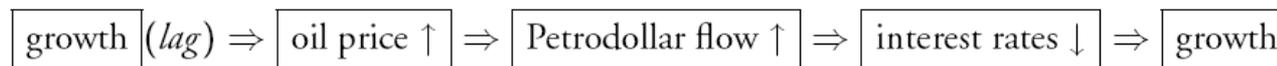
Coincidence of High Oil Prices with Financial Crises

Currency & Banking Crises Severest 1850s-70s, 1970s-

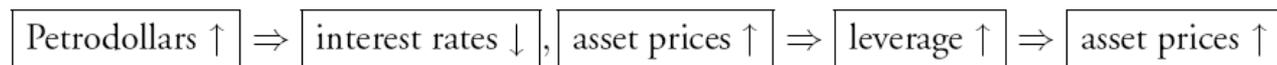


Cyclical Petrodollar Recycling and Financial Crises

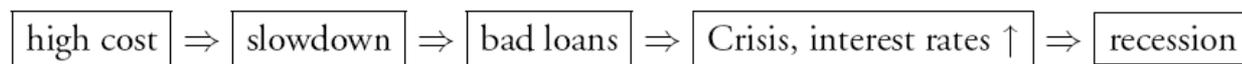
- Feedback mechanism during booms



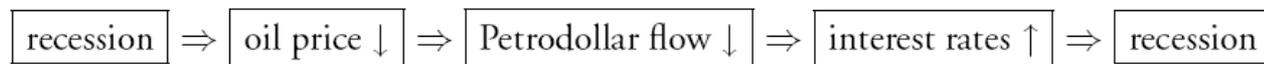
- Hubris (80's: *countries don't go bankrupt*; 00's: *house prices don't fall!*)



- Eventually (*Minsky moment*; *Ponzi finance*)

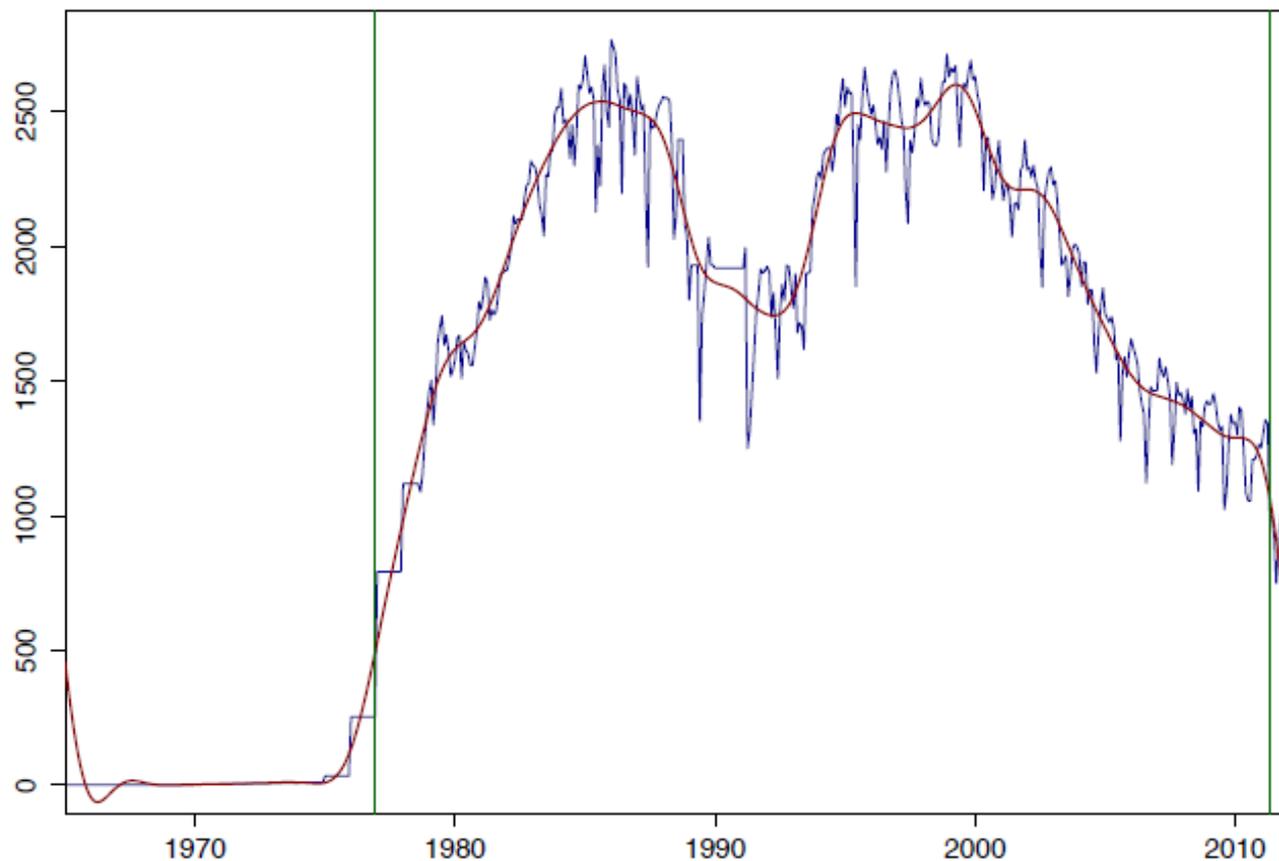


- Feedback mechanism during busts



- Low cost of production + monetary and fiscal policies (lag) \Rightarrow economic growth + geopolitical strife (lag) \Rightarrow $\boxed{\text{oil price } \uparrow}$. . .

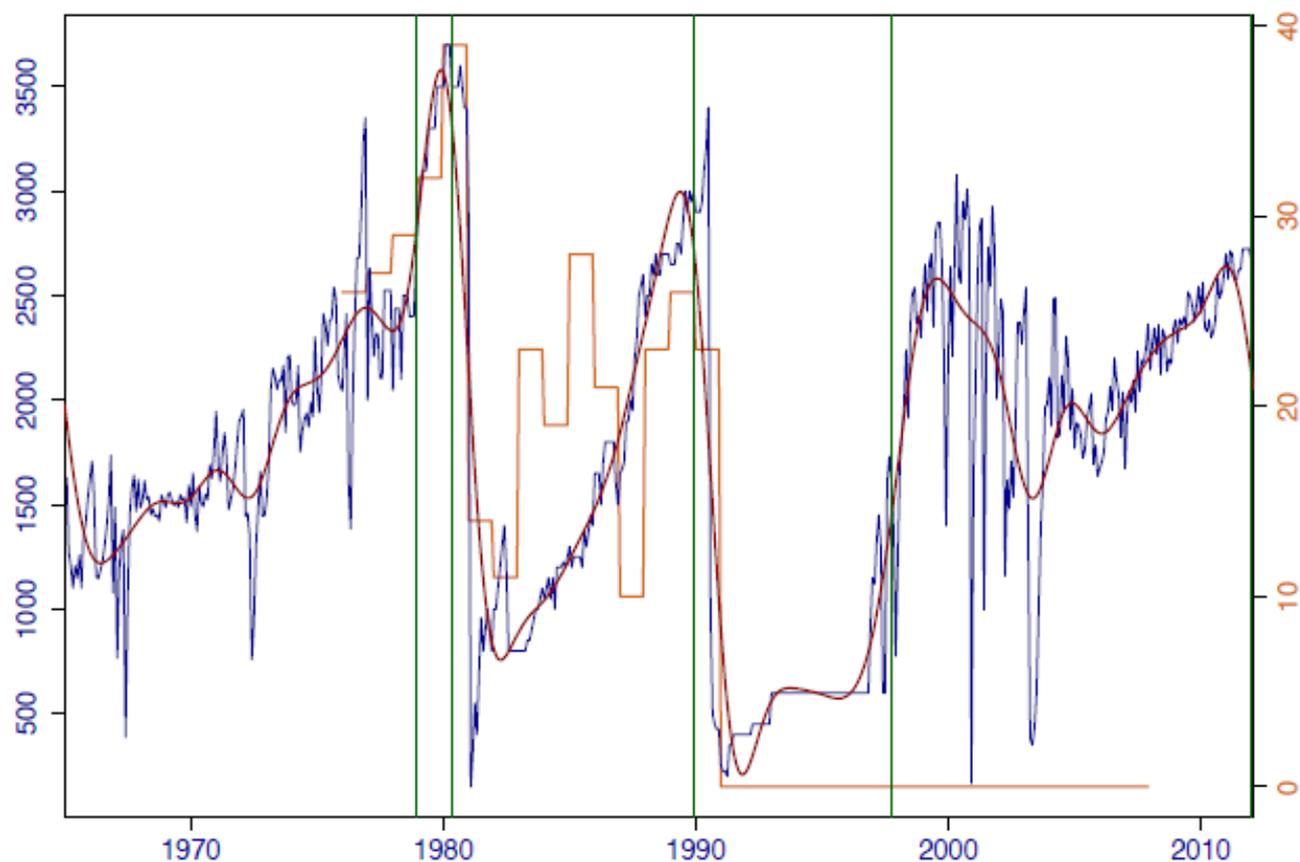
Technology-Driven Supply Response to Rising Prices: UK



Unintentional Supply Disruptions?

- Can Saudi Arabia and other major producers reduce output to accommodate U.S.?
 - No, for fear of regime changes in the region. They need current production level as well as high prices to meet budgetary and populist demands.
- If prices fall, reducing revenues significantly, would regime change result in output disruption
 - As we will show, regime change by itself does not lead to jumps to lower Hubbert curve, although they may prevent jumps to higher ones
- War, on the other hand, destroys facilities and leads to supply disruptions
 - Is the status quo with threat of spreading war (i.e. Syria) the best scenario for major producers?

The Effect of Wars on Iraq



Regime Change Did Not Disrupt Venezuela's Production

