# Discussion of "Not All Oil Price Shocks Are Alike"

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# Summary of the paper

- "Not all oil price shocks are alike"
  - Supply $\leftrightarrow$ demand
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- Findings
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  - Explains 'why the 2000s are so different from the 1970s' (Blanchard and Gali 2007)

# Empirical approach

- Structural VAR
  - Monthly data 1973(?)-2006
  - Short-run restrictions
  - Variables: oil price, oil production, global economic activity
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    3. **Oil-specific demand shocks**

       All other shocks to the price of oil

# Identifying supply (vs demand) shocks

- All shocks that affect oil production within a month
  - *"Crude oil supply is assumed not to respond to innovations to the demand for oil within the same month."*
  - *"oil-producing countries will be slow to respond to demand shocks, given the costs of adjusting oil production and the uncertaintly about the state of the crude oil market."*
- Plausible, no obvious alternatives
- Potential problems:

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  - Capacity utilization
- Does it work?

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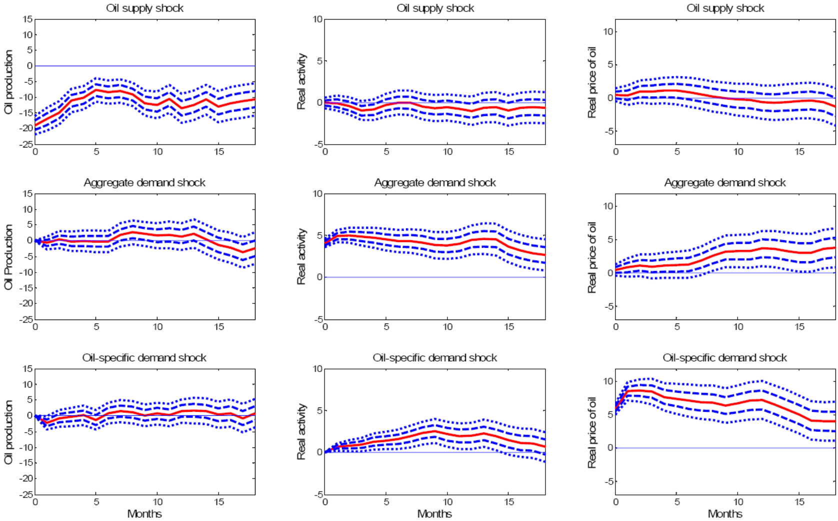
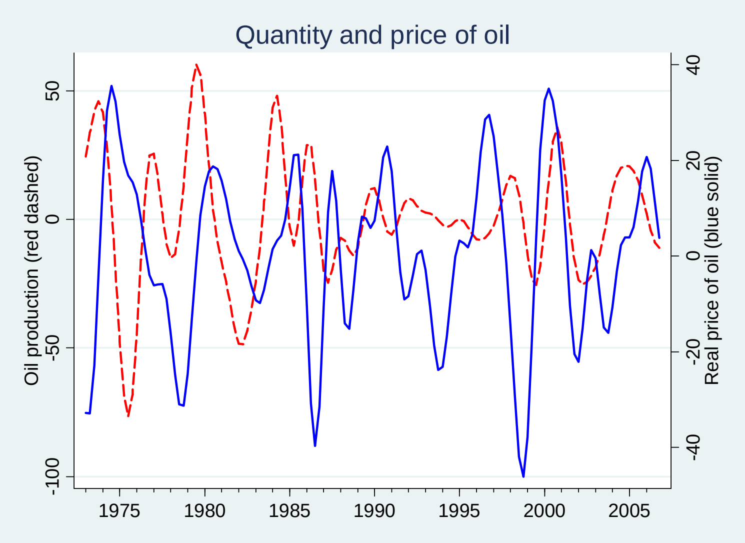


# Identifying supply (vs demand) shocks

- Negative supply shock
  - Production decreases (by construction)
  - Price increases very little, eventually decreases
- Positive demand shock
  - Production almost not affected (partly by construction)
  - Price increases as expected
- Most price fluctuations from oil-specific demand shocks

# Identifying supply (vs demand) shocks - sign restrictions



# Identifying 'aggregate' (vs oil-specific) demand shocks

- All demand shocks that affect global activity within a month
  - *"increases in the real proice of oil driven by shocks that are specific to the oil market will not lower global real economic activity immediately, but with a delay of at least a month."*
- Plausible, no obvious alternatives
- New, monthly measure for global economic activity
  - Average dry cargo freight rate for various commodities
  - Detrended to control for technological advances in shipping
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- Compare to other measures

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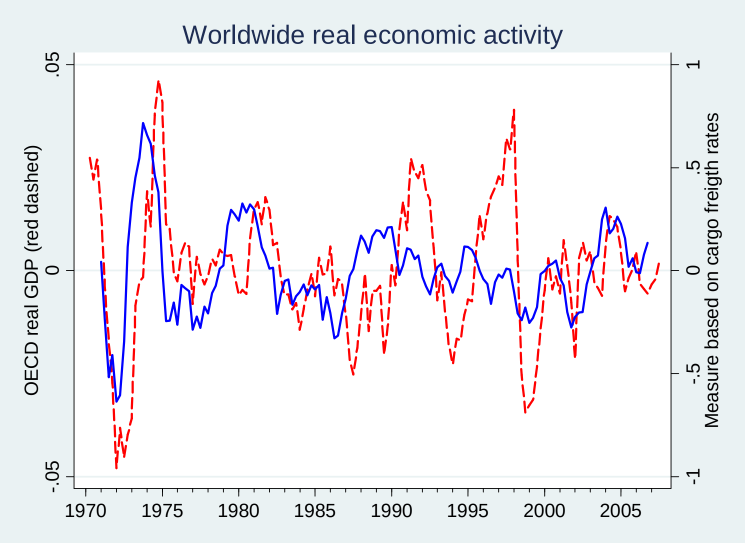

# Interpreting the residual

- Oil-specific demand shocks
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  - *"will reflect in particular fluctuations in precautionary demand for oil driven by uncertainty about the availability of future oil supplies."*
- Precautionary demand interpretation
  - "no other plausible candidates"
  - "large impact effect on oil price $\Rightarrow$ expectational shock"
  - "timing consistent with exogenous events that affect uncertainty"
- Direct evidence?

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- Direct evidence?
  - Expenditure share oil in production function

# Concluding

- Important question
- Provocative answers
- Not (yet) convincing
  - Are there (predictable) supply shocks that affect other variables before production?
  - Are there aggregate demand shocks that do not immediately affect global activity?