Economic Geography
The Demand for Oil

Economics and Geography Activity 2

The Demand for Oil

Americans demand oil for many uses, but a good share of it is used as fuel for their automobiles. (Oil is used to make gasoline.) In the United States, about 193 million vehicles burn 122 billion gallons of gasoline a year. The United States and Canada produce only about half of that needed oil. Where do Americans get their oil and what do they pay for it?

Much of the world's oil is produced in Southwest Asia and North Africa. These countries, as well as Venezuela in South America, formed the Organization of Petroleum Exporting Countries (OPEC) in 1960. OPEC attempts to set world oil prices by controlling oil production. Their control of oil production has other far-reaching effects. In October 1973, after the outbreak of the Arab-Israeli War, the Arab oil-producing nations created a gasoline shortage by placing a ban on oil exports to the United States. They lifted the ban in March 1974.

In a market economy such as the United States, the price of goods is determined by supply and demand. **Supply** is the amount of a good produced and available for sale to consumers. **Demand** is the amount of the good that consumers want to buy. For example, the demand for gasoline in the United States is about 122 billion gallons per year. If the supply is the same as the demand, the price will remain the same. By placing a ban on exports, OPEC reduced the supply of oil. As a result, prices increased. Generally, when demand is greater than supply, prices rise. When supply is greater than demand, prices fall.

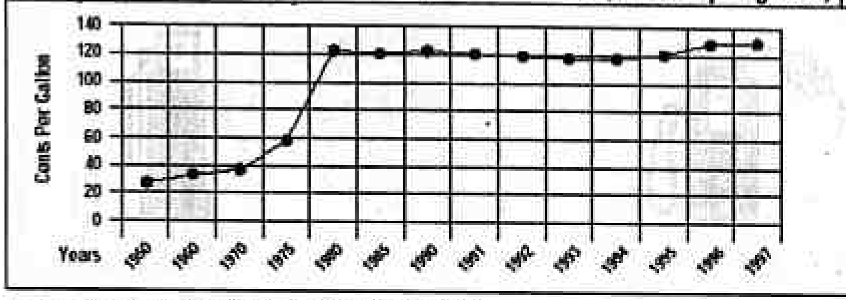
Directions: Examine the table and line graphs below. Then answer the questions that follow in the space provided.

World Crude Oil Production, 1997 (in millions of barrels per day)

Organization of Petroleum Exporting Countries (OPEC)		Non-OPEC Countries	
Iran	3.66	Canada	1.89
Iraq	1.19	China	3.20
Kuwait	2.08	Mexico	3.03
Nigeria	2.32	Norway	3.15
Saudi Arabia	8.56	Russia	5.88
United Arab Emirates	2.32	United Kingdom	2.52
Venezuela	3.31	United States	6.41

SOURCE: *The New York Times Almanac*, 2000, New York, NY, p. 376.

Gasoline Prices in the United States, 1950 to 1997 (in cents per gallon)



SOURCE: *The New York Times Almanac*, 2000, New York, NY, p. 376.

1. According to the table, which country produces the most oil?

2. What was the total oil production per day of the OPEC countries in 1997?

3. What was the total world oil production per day in 1997?

4. What does OPEC attempt to do?

5. How much of their demand for oil do the United States and Canada produce?

6. Why might the United States leaders be concerned about the political situations of the major oil-producing countries?

7. According to the graph, how has the price of gasoline changed since 1950?

8. What other products might be affected by high oil prices?

9. Explain why gasoline prices changed in the 1970s.

10. **Critical Thinking Activity** The people of the United States account for only about 5 percent of the world's population. However, Americans consume close to 25 percent of the world's oil. What might occur in the United States if it were suddenly unable to obtain oil from the major oil producers? Write an imaginary news story in which this situation occurs.