

THE COMMENTARY WRITING PROCESS – PREPARING A PLANNER

(SUGGESTED ANSWERS ONLY)

STEP TWO – PLANNING

Use the commentary planning sheet from the website and lay out what it is you are going to write. If you have the ideas clear in your head before you put pen to paper (or digits to keyboard) the writing will be much easier.

- A) Terms that will be addressed: **Demand, Elasticity of Demand (Supply ...)**

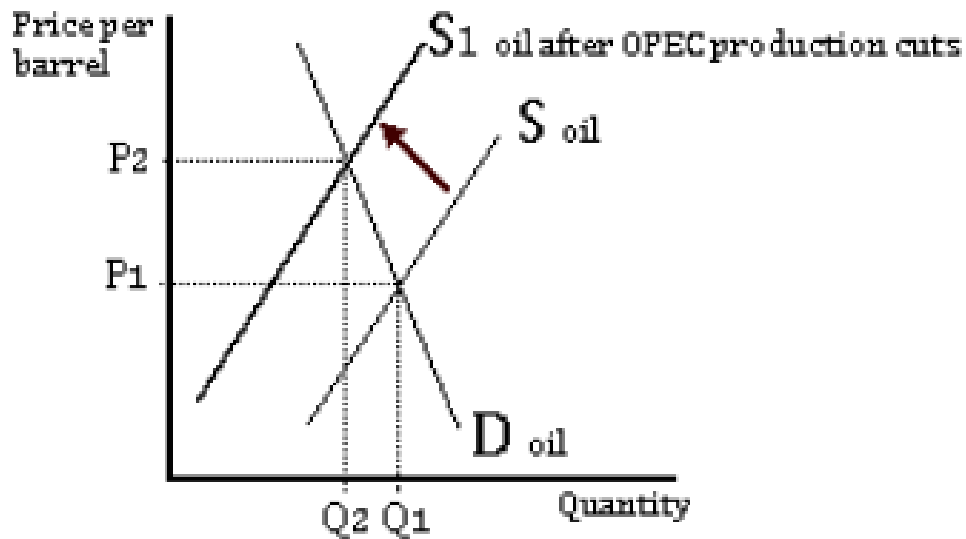
Note that you have some choices here – I have chosen these terms but, in a discussion about alternative, renewable fuels, **substitutes** might be a useful term to address as well.

- B) The change discussed in the article is ***the rapid rise in the oil price which could result in, over time, consumers moving away from petroleum towards alternative energy sources and practicing more energy conservation.***

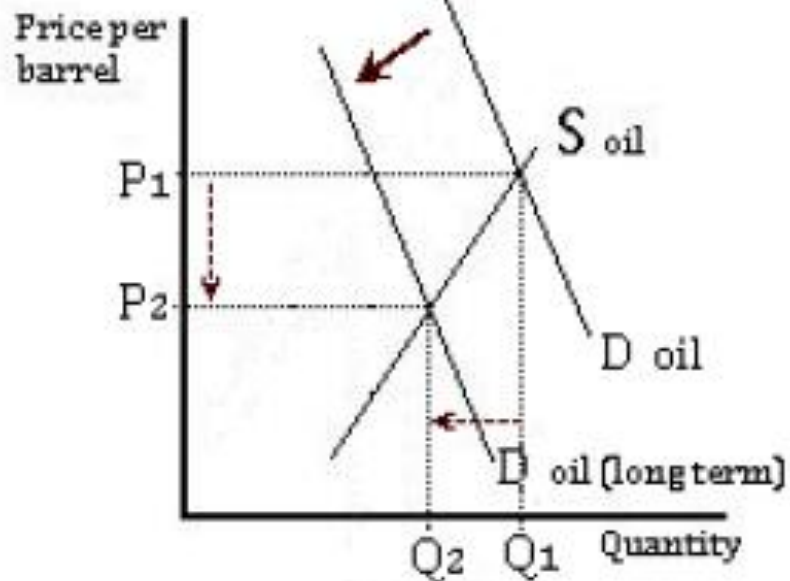
Key Economic Term: **Sustainability**

Sustainability addresses the ability of present generations to meet its needs without compromising the ability of future generations to meet their own needs. Furthermore, it refers to limiting the degree to which the current generation's economic activities create harmful environmental outcomes involving resource depletion or degradation that will negatively affect future generations. As oil producers, such as OPEC, have tried to increase the price of oil, this has accelerated the conservation movement and "... the market incentives for investments in alternatives and energy saving technologies."

- C) The diagrams I could draw could be, first, the initial situation of rising oil prices due to output curbs enacted by OPEC. I would show *a shift in the supply curve to the left (decrease) and a rise in oil prices.*

Figure 1

The second diagram would show the possible response by consumers in the medium to longer term. If they were to embrace conservation and alternative energy sources, then demand would decrease (shift to the left) as well, moderating the increasing price of oil and indirectly aiding efforts to improve sustainability.

Figure 2

Keep in mind, there are options in modelling your analysis and evaluation. For example, falling demand could be combined with a cut in supply on the same diagram (perhaps replacing the second figure) to show how oil consumption would fall, but price determination would be uncertain over the long run. This last point could be related to how sustainability may not benefit from higher oil prices unless the price of this resource remains high relative to greener energy substitutes.

- D) *One could assess the impact of such changes on oil producers and consumers (firms and consumers such as motorists) in developed and developing nations in the long and short term to try to judge whether continued oil prices in the \$100/barrel range are on balance good or bad. It is clear that the move away from oil in the medium to longer term in response to a price change accords with market theory. Overall, it seems that continued oil prices at \$100/barrel might be more positive than negative as more consumers, especially motorists and homeowners, are encouraged to move towards greener substitutes such as electricity and non-fossil fuel options.*