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Title: Economic Analysis

Abstract

Economic analysis is used in many situations. When British Petroleum sets the price for its Alaskan crude oil, it uses an estimated demand model, both for gasoline consumers and also for the refineries to which BP sells. The demand for oil by refineries is governed by a complex economic model used by the refineries and BP estimates the demand by refineries by estimating the economic model used by refineries. Economic analysis was used by experts in the antitrust suit brought by the U.S. department of justice both to understand Microsoft's incentive to foreclose (eliminate from the market) rival Netscape and consumer behavior in the face of alleged foreclosure.

oil is a commodity it is very important for state of Kuwait. Then and so, I will take this commodity and explain how oil price influence for all commodities when the oil price higher or depression.

Many different subjects were once regarded as a part of economics. Political science and even sociology were once considered part of the field. Economic principle, theory and problem solving. And communication, research and technology skills. These subjects still play a major role in understanding economics.

1 – Introduction

This research presents economics principles material using standard mathematical tools, including calculus. it also contains the standard intermediate microeconomics material. This research can easily serve as an intermediate microeconomics text. The focus of this research is on the conceptual tools. This research reflects the approach actually adopted by the majority of economists for understanding economic activity.

1. 1 What is Economic

Economic is the study of supply and demand. It defines the ways that human beings allocate resources and how resources are distributed amongst a market. it allows you to see the trends in current market places and predict what may happen in the future. Economic analysis is the systematic approach in which economists and other professionals will estimate the economic environment and its important role in determining how a trader will want to position themselves in a market. economic analysis is the study of forces that determine the distribution of scarce resources.

Economic analysis provides insight into how markets operate and offers methods for attempting to predict future market behavior in response to events, trends, and cycles. Economic analysis is also used by governments to determine tax rates and evaluate the financial health of the nation or state. Markets are an important means of allocating resources, so economists study markets. markets include stock markets like the New York stock exchange, commodities markets like the Chicago Mercantile. In addition, goods and services (which are scarce resources) are allocated by governments, using taxation as a means of acquiring the items. Governments may be controlled by a political process, and the study of allocation by the politics, which is known as political economy, is a significant branch of economics. Goods are allocated by certain means, like theft, deemed illegal by the government, and such allocation methods nevertheless fall within the domain of economic analysis; the market for marijuana remains vibrant despite interdiction by the governments of most nations. Other allocation methods include gifts and charity, lotteries and gambling, and corporative societies and clubs, all of which are studies by economists.

Some markets involve a physical marketplace. Traders on the New York stock exchange get together in a trading pit. Other markets, which are more familiar to most of us. involve physical stores that may or may not to be next door to each other, and customers who search among the stores, purchasing when the customer finds an appropriate item at an acceptable price. when we buy vegetables, we don't typically go to a vegetable market and purchase from one of a dozen or more vegetable, the grocery stores compete in a market for our vegetable patronage, attempting to attract customers to their stores and including them to purchase vegetables.

Price-exchange of goods and services for money- is an important allocation means, but price is hardly the only factor even in market exchanges. Other terms, such as convenience, credit terms, reliability, and trustworthiness are also valuable to the participants in a transaction. In some markets such as Ford the products offered by distinct sellers are identical, and for such products, price is usually the primary factor considered by buyers, although delivery and other aspects of the transaction may still matter. For other products, like restaurant meals, camcorders by different manufactories, or Air travel on distinct airlines, the products differ to some degree, and thus the quantities of the product are factors in the decision to purchase. Nevertheless, different products may be considered to be in a single market if the products are reasonable substitutes, and we can consider a "quantity-adjusted" price for these different goods.

1. 2 normative and positive theories

Economic analysis is used for two main purposes. The first is, a scientific understanding of how allocations of goods and services-scarce resources-are actually determined. This is a positive analysis; it is involving just the attempt to understand the world around us. when development this analysis, economic analysis suggests how distinct changes in law, rules and other government interventions in markets will affect people, and in some cases, one can draw a conclusion that a rule change is, on balance, socially beneficial. And when combine positive analysis with value judgments, this is a normative analysis. For example, a gasoline tax used to build highways harms gasoline buyer "who pay higher prices", but helps drivers "who face fewer potholes and less crowded". Since drivers and gasoline buyers are generally the same people, a normative analysis may suggest that everyone will benefit. This type of outcome, where everyone is made better off by a change, is relatively uncontroversial.

In contrast, cost benefit analysis weighs the gains and losses to different individuals and suggests carrying out changes that provide greater benefits than harm. For example, a property tax used to build a local library a benefit to those who use the library, but harms those who own property (although, by increasing property values, even non-users obtain some benefits). Since some of the taxpayers will not use the library, it will not be the case that everyone benefits on balance. Cost

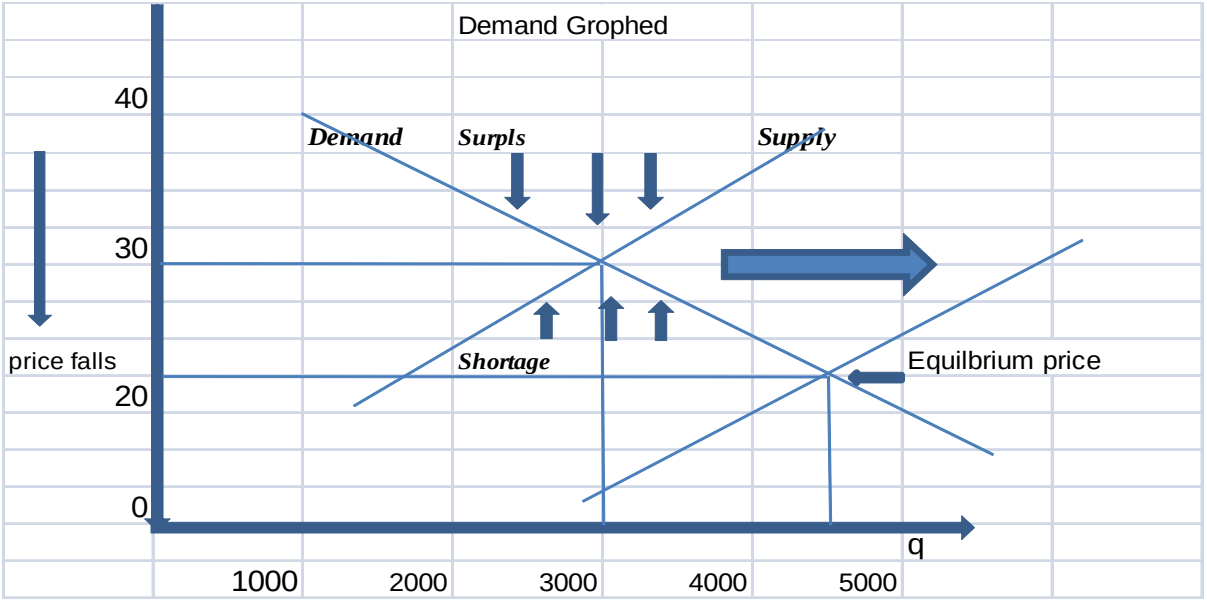
benefit analysis weighs the costs against the benefits. In the case of the library, the costs are readily monetized "turned into dollars", because the costs to the taxpayers are just the amount of the tax. In contrast, the benefits are much more challenging to estimate. Conceptually, the benefits are the amount the library users would be willing to pay to use the library if the library charged admission. However, if the library doesn't charge admission, we would have to estimate willingness-to-pay. In principle, the library provides greater benefits than costs if the benefits to the users exceed the losses to the taxpayers. However, the library also involves transfers from one group to another.
Welfare analysis provides another approach to evaluating government intervention into markets. welfare analysis posits social preferences and goals, like helping the poor. Generally, a welfare analysis involves performing a cost benefit analysis taking account not just of the overall gains and losses, but also weighting those gains and losses by their effects on other social goals. A property tax might provide more value than costs. But property tax to use this tax for build opera paid by lower and middle income people, while the majority of opera-goers are rich. Thus, the opera subsidy represents a transfer from relatively low income people to richer people. In contrast, elimination sales taxes on basic food items like milk and bread generally has a relatively greater benefit to the poor, who spend a much larger percentage of their income for food than to the rich. Economics is helpful not just in providing methods for determine the overall effects for taxes and programs, but also the incidence of these taxes and programs, that is, who pays, and who benefits. What economics can't do, however, is say who ought to benefit. That is a matter for society at large to decide.

1. 1. 2 opportunity cost
Economists use the idea of cost in a slightly over elaborate way that makes sense once you think about it for an economist, the cost of something isn't just the cash payment, but all of the value given up in the process of acquiring the thing. For example, the cost of university education, and tax book purchases, and also the wages that would have been earned during the time of university. The value of the time spent acquiring the education, how much enjoyment was lost, is part of the cost of education. However, some costs aren't opportunity costs. Room and board wouldn't generally be a cost because, after all you are going to be living and eating whether, you are in university or no. room and board are part of the cost of education only insofar, as they are more expensive than they would be otherwise.
The main idea for all previous that the cost of something isn't just its monetary cost but also the value of what you didn't get.

1. 1. 3 economic reasoning and analysis
What the effect of a policy change? The government program to educate unemployed workers, an increase in military spending, an enhanced environmental regulation, people and their ability to purchase the goods and services they desire. Unfortunately, a single change may have multiple effects.
To make any sense at all of the effects of a change in economic conditions. It is helpful to divide up the effect into pieces. Thus, we often look at the effects of a change "other things equal," that is, assuming nothing else changed. This isolates the effect of the change. In some cases, however, a single change can lead to multiple effects; we make a lot of assumptions that we may not find easy to understand. So, some of the assumptions aren't required for the analysis. The people we will talk about seem exceedingly selfish relative to most people we know. And the model help the people for

choices to make decision. So, assuming that they make the choice that is best for them. Then at least four reasons help us to make decisions:
A. people always make decisions as families or households rather than individuals, so, that mean the decisions fairly selfish than individuals.
B. some people want things, we may want to make a lot money so, build supermarket that means self-interest behavior.
C. corporations and shareholders both seek high benefits or return. By maximum the share value, including self-interest behavior on the part of the corporation. Like the shareholders order to raise capital. That is shareholders and people choosing investments that generate a high return will tend to force corporations to seek a high return.
D. there are many good and not good, people acting in their own self-interest, which reason focus on self-interest behavior.
Therefore, there are limits to the applicability of the theory of self-interested behavior, it is a reasonable methodology for attempting a science of human behavior.
Self-interest behavior described maximum behavior for both consumers' and firms for their purchases, and so, the make maximum value for everything they will buy or sell. The way economics is performed by a proliferation of mathematical models, models help by removing extraneous details from problem or issue. In some cases, the models relatively simple, like demand and supply. In other cases, the models relatively complex. In all cases, the models let us understand the question or phenomenon. The purpose of the model is to illuminate connections between idea. A typical implication of a model is "when A Increases B fall". This comparative between A and B let us use how A Affects B. and why? At least, the real world is always much more complex than the models we use to understand the world. That doesn't make the model useless, indeed, exactly the opposite, but the model wearing us lens to isolate and understand aspects of the real world.

2 – Microeconomics
The study of how decisions are made by consumers and suppliers, how these decisions determine the allocation of scarce resources in the marketplace, and how public policy can influence market outcomes for better or worse. A basic understanding of microeconomics is essential to study of macroeconomics because "micro" provides the foundations upon which "macro" is built. [**1**]
Economists think of there being two sides to a market, the demand side and supply side. The demand side consists of economic agents, households and sometimes firms, who come to the market to buy a specific good or service. The supply side consists of the suppliers of the good or service, generally firms the produce the item.
We study the demand and supply sides of a markets separately, because each involves a different groups of agents. Within each group there is a common goal but the two groups have very distinct goals.
Let us start by studying the behavior of consumers in a market familiar to most of us
Supply and demand.



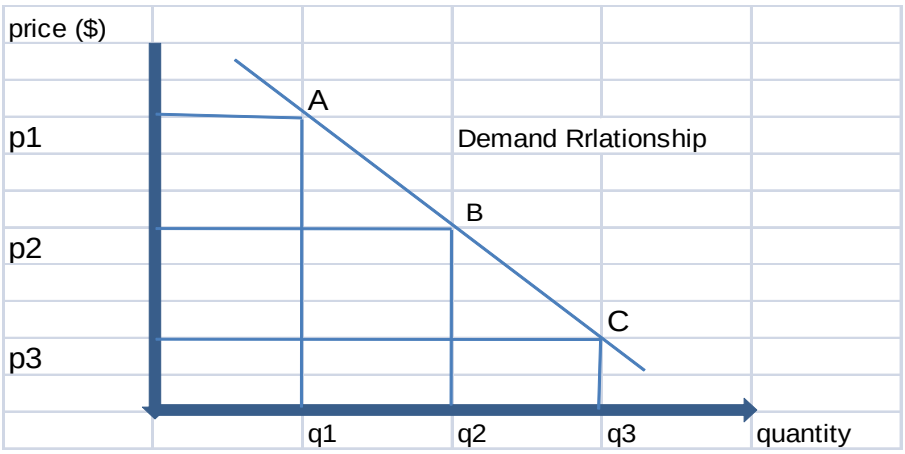
Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. demand refers to how much (quantity) of a product or service is desired by buyers.

the quantity demanded is the amount of a product people are willing to buy at a certain price, the relationship between price and quantity demanded is known as the demand relationship. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. the correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.

The relationship between demand and supply underlie the forces behind the allocation of resources. In market economy theories, demand and supply theory will allocate resources in the most efficient way possible. Before I explain this paragraph, I will a closer look at the law of demand and the law of supply.

3 - The law of demand

The law of demand, all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people will naturally avoid buying a product that will force them to forgo the consumption of something else they value more. The chart below shows that the curve is a downward slope.



between quantity demand(Q) and price(p). so, at point A, the quantity demand will be Q1 and the price will be p1, and so on. the demand relationship curve illustrates the negative relationship between price and quantity demanded. The higher the price of a good the lower the quantity demanded (A), and the lower the price, the more the good will be in demand(C). this inverse relationship between price and the quantity demanded is called the law of demand. It is one of the most firmly established principles in the social sciences and it is no exaggeration to say that it is the keystone of economics.

Demand

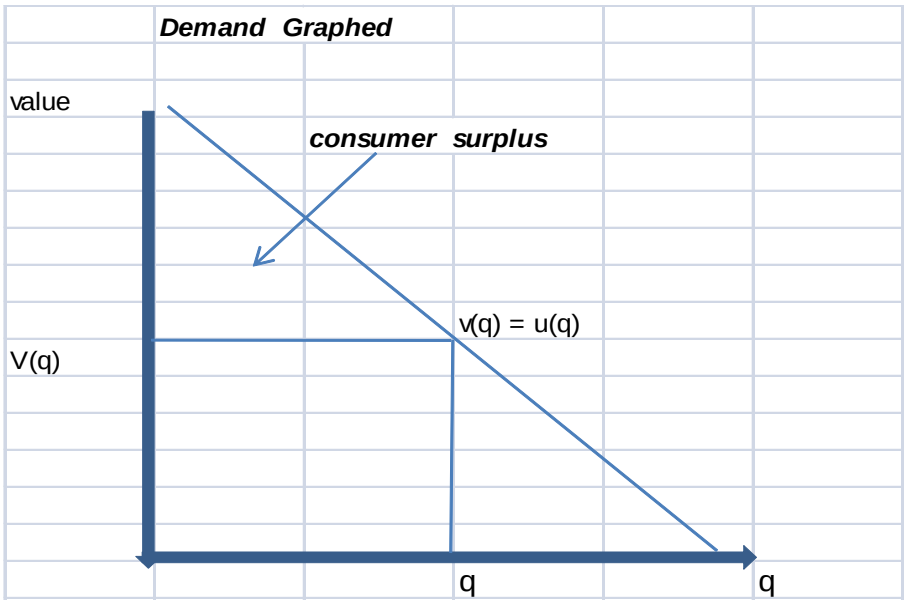
1. Value of consumption q is u(q)

2. Marginal Value = V(q) = u'(q)

3. Consumer Surplus = u(q) – pq

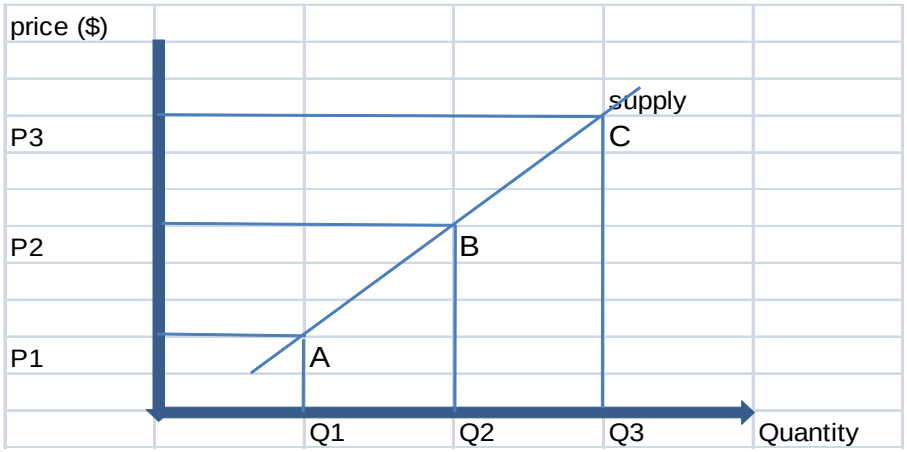
$$\int_0^q [u'(x) - p]\,dx = \int_o^q [V(x) - p]\,dx$$

4. Maximized at q satisfying V(q) = p



4 - The law of supply

The law of supply demonstrates the quantities that will be sold at a certain price. but different the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.



A, B and C are point on the supply curve. Each point on the curve reflects a direct correlation between quantity supplied(Q) and price(P). at point B, the quantity supplied will be Q2 and the

price will be p2, and so on. the important attribute of a supply chart is that the quantity of the good supplied increases as the price increases. This is called the law of supply.

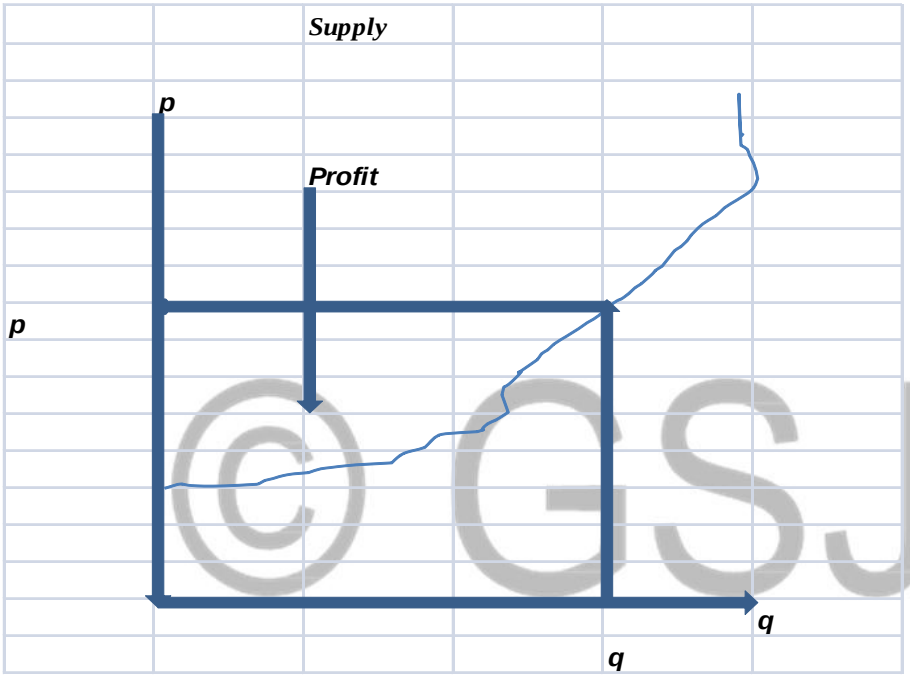
Supply

1. Max pq- c(q)

$$0=\frac{d}{dq}pq- c(q) = p - c'(q^*)$$

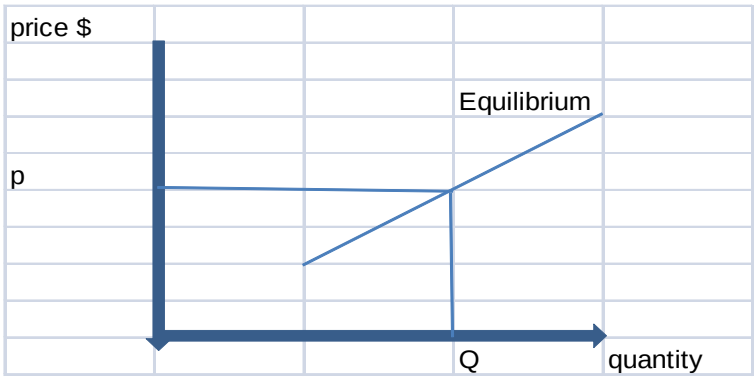
2. Price equals marginal cost

3. the supply (of a price-taking firm) is the inverse of the marginal cost curve.



5 - Equilibrium

When supply and demand are equal the economic is to be at equilibrium. At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of good being demanded. Thus, everyone (individuals, firms, or countries) is satisfied with the current economic condition. At the given price, suppliers are selling all the goods that they have produced and consumers are getting all the goods that they are demanding.

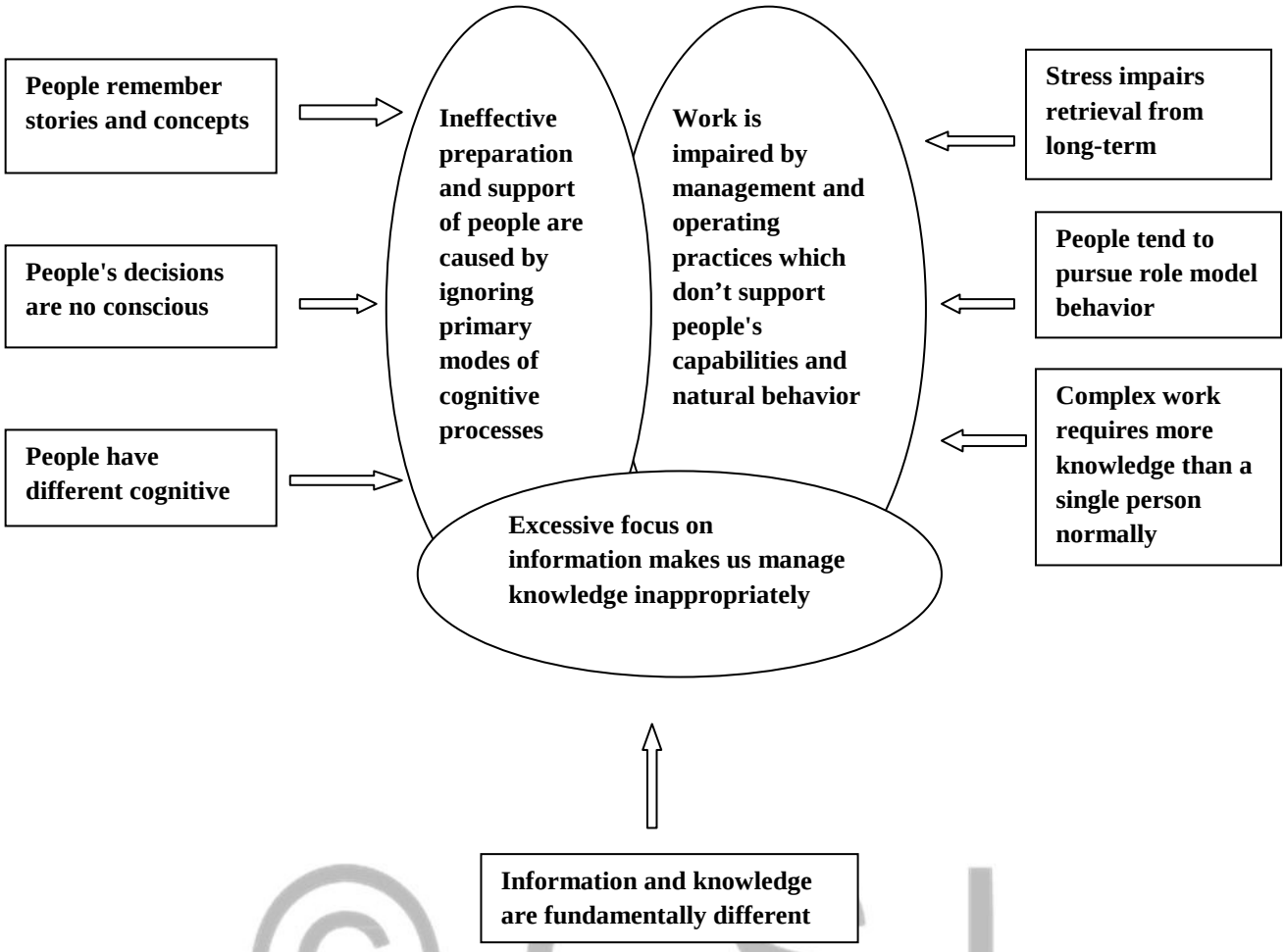


6 - Efficiency of Equilibrium

The equilibrium of supply and demand balances the quantity demanded and the quantity supplied, so that there is no excess of either $[3: 2-24]$***Would it be desirable, from a social perspective, to force more trade, or to restrain trade below this level? There are circumstances where the equilibrium level of trade has harmful. Provided that the only people affected by a transaction are the buyer and seller, the equilibrium of supply and demand maximizes the total gains from trade. This proposition is quite easy to see. To maximize the gains from trade, clearly the highest value buyers must get the goods. Otherwise, if there is a potential buyer that doesn't get the good with higher value than one who does, the gains from trade rise just by diverting the goods to the higher value buyer. Similarly, the lowest cost sellers must supply those goods; otherwise, we can increase the gains from trade by replacing a higher cost seller with a lower cost seller. Thus, the only question is how many goods should be traded to maximum the gains from trade, it will involve the lowest cost sellers selling to the highest value buyers. Adding a trade increases the total gains from trade when that trade involves a buyer with value higher than the seller's cost. Thus, the gains from trade are maximized by the set of transactions to the left equilibrium, with the high value buyers buying from the low cost sellers.***

In the economist's language, the equilibrium is efficient, in that it maximizes the gains from trade, under the assumption that the only people affected by any given transaction are the buyers and sellers.

7 –Have we Misunderstood how people think, Make Decisions, and Act?
we need to understand that people prefer to think, make decisions, and act in ways that are natural and convenient for them. They like to feel that any decision can be made and implemented in an easy, manageable, and acceptable manner and that it will be the "best way" to promote and secure their own success and the success of both the enterprise and customer $[4: 54-56]$ ***We also need to understand why people choose to not "do the right thing"__ why they choose to pursue something that is less effective___ or even the wrong thing. There many reasons for such undesirable behavior. As a result, our narrow perspective of how the human mind needs to be treated has led to problems. Many of our traditional practices and methods used to prepare and support workers with education and systems are less effective than they should be. Our work environments may also be found wanting by providing conditions that hamper the effective use of the available knowledge and intellectual capital assets.***



Seven Areas of Knowledge-Related Misconceptions that make Workers Less Effective than we should Accept. Copyright c 2002 KARL M. Wig. Reproduced with Permission.

8 - Five ways technology can help the economy

At a time of slowed growth and continued volatility, many countries are looking for policies that will stimulate growth and create new jobs. information communications technology (ICT) isn't only one of the fastest growing industries-directly creating millions of jobs-but it is also an important enabler of innovation and development. In this new environment, the competitiveness of economies depends on their ability to leverage new technologies

I will introduce ways technologies can help the economy

8 .1 direct job creation

The ICT sector is, and is expected to remain, one of the largest employers. In the US alone, computer and information technology jobs are expected to grow by 22% up to 2020, creating 758,800 new jobs .in Australia, building and running the new super-fast national broadband network will support 25,000 jobs annually. Naturally, the growth in different segments is uneven. In the US, for each job in the high-tech industry, five additional job, on average are created in other sectors. In 2013, the global tech market will grow by 8% , creating jobs, salaries and a widening range of services and products.

8 .2 contributions to GDP growth

Finding from various countries confirm the positive effect of ICT on growth. For example, a 10% increase in broadband penetration is associated with a 1.4% increase in GDP growth in emerging markets. in China, this number can reach 2.5%. the doubling of mobile data use caused by the increase in 3G connections boosts GDP per capita growth rate by 0.5% globally. The internet accounts for 3.4% of overall GDP in some economies. Most of this effect is driven by e-commerce –people advertising and selling goods online.

8 .3 emergences of new services and industries

Numerous public services have become available online and through mobile phones. The transition to cloud computing is one of the key trends for modernization. The government of is one of the first countries in eastern Europe and central Asia to shift its government IT infrastructure into the cloud and launch mobile and e-services for citizen and businesses. ICT has enabled the emergence of a completely new sector: the app industry. Research Shows that FACEBOOK apps alone created over 182,000 jobs in 2011, and that the aggregate value of the FACEBOOK app economy exceeds $$12 billion.

8 .4 workforce transformation

New "micro work" platforms, developed by companies like ODESK, Amazon and SAMASOURCE, help to divide tasks into small components that can then be outsources to contract workers. The contractors are often based in emerging economies. MICROWORK platforms allow entrepreneurs to significantly cut costs and get access to qualified workers. In 2012, desk alone had over 3 million registered contractors who performed 1.5 million tasks. This trend had spillover effects on other industries, such as online payment systems. ICT has also contributed to the rise of entrepreneurship, making it much easier for self-starters to access best practices, legal and regulatory information, marketing and investment resources.

8 .5 business innovation

In OECD countries, more than 95% of businesses have an online presence. The internet provides them with new ways of reaching out to customers and competing for market share. Social media has established itself as a powerful marketing tool.

Types of economic analysis

Type of economic analysis	*Information provided*
Cost analysis	*How much something costs*
Fiscal-impact analysis	*How your budget will be affected*
Cost-effectiveness analysis	*How many outputs you get for your dollar*
Cost-benefit analysis	*How much benefits outweigh costs*

9 - Ethics and economics

We try to show how understanding moral philosophy can help economics better and how economics and ethics can help policy analysis to improve their evaluations of alternative policies. We also hope to show how philosophers can do ethics better by drawing on insights and analytical tools from economics. The main for those who are interested in economics and the aim at helping them to do economics, but that economics has some important things to offer ethics, too. The main value of moral theories doesn't lie in prescribing what to do in particular situations. Their main purpose is to help people to understand what morality is, where it fits into their lives, and why they assign it the importance they do. Moral theories have a practical role in guiding people's reflection on the moral principles they accept and in helping people decide what to do when their moral principles conflict. Similarly, understanding ethics can help economists to think productively about the moral dimensions of policy problems. Knowing "moral philosophy" ethics can help economists and policy analysis to improve their methods of policy evaluation and to understand how people's economic behavior is influenced by the moral dimensions of their lives.
Moral insight are, to be sure, more important to some parts of economics than others. Moral ideas are of little help in forecasting the price of what or in refining theories of exchange rate determination. Moral ideas will be more important to economists who face problems such as improving the standard of living in poor countries, increasing tax compliance, or helping citizens think through the trader-offs-between environment protection and economic growth [6: 3 – 9].

9. 1 What are moral questions and how can they be answered?

Moral questions and moral reasoning can be difficult to understand, and we have found that students often hold very skeptical or very cynical views. Moral can't be true or false. "moral is just a matter of social convention or prejudice." And members of different societies disagree about morality. There are genuine moral questions about social policy, too. The question about whether abortions should be legal cannot be decided by ascertaining what the law is. The moral question of what the law concerning abortion ought to be must also be distinguished from questions about whether laws permitting or banning abortion are constitutional. "slavery" in the past made slavery constitutional, but it didn't make it just. One also cannot decide whether abortions ought to be legal by means of sociological research, such as a poll. A poll can determine what most people believe, but it won't say whether they are right. Those who believe that abortions ought not to be legal cannot be refuted by results of polls showing that most people believe that they should remain legal. One addresses moral questions instead by making arguments. And that arguments can sometimes help people find out which answers are better- we can see that the cynical or relativistic conclusions concerning morality are exaggerated and unjustified.

9 .2 how is moral philosophy relevant to economics?

The idea that studying ethics could help people to do economics or policy analysis may seem elusive. so, moral reasoning can help people gain a sure grip on serious problems about how to make their lives and our society better. Many economists would draw a sharp

distinction between evaluative questions and the positive science of economics, which is concerned with facts, not values. In the 1930s, LIONEL Robbins expressed this view As follows: "it doesn't seem logically possible to associate the two studies [ethics and economics] ***in any form but mere exceed. economics deals with ascertainable facts; ethic with valuations and obligation"*** [7: 1935, pp. 148 − 9]**.**

Although, we believe no way to draw the distinction between facts and values precisely, it is worth describing how philosophers and economists have distinguished them figure 1.1 summarizes the contrasts.

Factual claims	*Evaluative claims*
igreements can be resolved by evidence	*No good way to resolve disagreements*
Relatively little disagreement	*Relatively little agreement*
criptive: say how things are true or false	*escriptive: say how things ought to be not true or false*
Objective	*Subjective*
Independent of evaluative claims	*Dependent on factual claim*
Help to achieve goals	*Help to determine goals*

figure 1.1 exaggerated contrast between facts and values

10- How does the law of supply and demand affect the oil industry?

The law of supply and demand primarily affects the oil industry by determining the price of oil. The price, and expectations about the price, of oil are the major determining factors in how companies in the oil industry allocate their resources. Prices create certain incentives that influence behavior, this behavior eventually feeds back into supply and demand to determine the oil price [8]

later there appeared models of economic growth by RAMSEY, BRAUN, P. ROMER, the most of technological changes, the model of UZAWA-LUCAS with two sectors, Schumpeter's models of endogenous growth. With the help of these models scientists studied factors the influenced economic growth and among these factors were human and physical, technological changes, expand of technologies, migration and population growth, environmental pollution. Besides, an American Economist W. ROSTOW studied conditions for sustainable growth on long term. The works by S. KUZNETS became the base for further development in understanding sustainable economic growth. According to SIMON KUZNETS, sustainable economic growth is a process of increasing productivity of the national economy which has to exceed the population upsurge for the highest possible period of time. Thus, efforts of economic theory in the 20th century were directed at analyzing conditions that provide long-run economic growth. Then they accept claiming that economic growth lies in the necessity of maintaining the equilibrium state of economy by economic methods to the longest possible period of time was formed. Almost all these approaches being expressed by mathematic models of economic growth didn't find their qualitative application in economies of developing countries and later in the second part of

the 80-90s of the 20th century they didn't find an application in analyzing the economic behavior of countries with transitive economies.

today there is no well-founded answer to the question: "why have these models not given practical results in countries with developing and transition economies?" what do the existing models of economic growth not take into account?" why are the existing models of development inadequate for changes occurring in many kinds of economies in the world?

It is obvious that the reason why existing models of economic development are inadequate for actual changes in economic life consists in the approach towards understanding the concept of the following categories: "development", sustainability" and "sustainable development". There is a need for accurate understanding the content of these categories; understanding should be based on adequate mathematic apparatus from natural sciences.

The analysis shows that models of economic growth as well as development models based on this approach don't function during long periods of time in economies of countries with an unstable political system. Institutions of implementation of economic policy strategies that are based on applying existing models of economic growth are missing. This fact causes the failure of all attempts to create quantitative economic changes in society during all periods of time.

11 - The blessing and the curse of oil

To a realist, oil, as anything else in life, can be blessing or a curse; it all depends on what is done with it. Wealth that is handed down in families can on the one hand afford future generations added opportunities, open many doors and help increase family wealth. And on the other hand; it can make family members lazy, unproductive. But the good population whom,

make development, production, and growth society from possession of oil reserves. That is known the blessing, not curse.

The relationship between oil price, exchange rate, inflation and economic activity remains a controversial one is both theory and empirical findings. In an international context, oil prices may have a differential impact on each of the countries due to some different factors such as the sect oral composition, their differential tax structure and regulations or the country's position as oil net importer or exporter. For instance, some studies suggest that the impact of oil price is only limited to the short-run[9: 65 − 83]*. While the others suggest that the output is influenced significantly by fluctuations in oil price through both long-run and short-run*[10: 315 − 32]

12 - Oil and economic policy

In the extreme, if a country such as Kuwait produced all of its oil this year and spent its revenues on consumption, then its national output next year would be significantly lower, because it would have no oil revenues and no alternative sources of income to take the place of oil. In economies that don't rely heavily on a deplorable resource such as oil, economic output, or net national product (NNP), doesn't diminish with time but indeed can normally be expected to increase with time. So oil revenues must be saved and invested, domestically or a broad, to even out NNP and to thus avoid a decline in national output in the future.

13 - Impact of oil price on output

Oil price fluctuations receive important consideration for their presumed role on macroeconomic variables. Higher oil prices may reduce economic growth, generate stock exchange panics and produce inflation, which eventually lead to monetary and financial instability. It will also lead to higher interest rates and even a plunge into recession $[11:]$***. Sharp increase in the international oil prices is generally regarded as factors discouraging economic growth*** $(12: 98 - 111)$***. theoretically, there are different reasons why an oil price shock should affect macroeconomic variables. First, the oil price shock can lead to lower aggregate demand since the price rise redistributes income between the net oil import and export countries. The higher costs of production in many cases translated into higher prices for goods and services. Second, the supply side effects are related to the fact that crude oil is considered as a basic input to production process. A rise in the oil price reduces aggregate supply since higher energy prices mean that firms purchase less energy; consequently, the productivity of any given amount of capital and labor declines and potential output falls. A large number of empirical studies have explored the relationship between oil price fluctuations effect on output*** $(13: 593 - 617)$.

More recently, $(14: 455 - 476)$. ***examine the effect of oil price change and its volatility on economic activities in the united states, Canada, and Japan.***

14 - Economic Activity

Economic activity, as approximated by gross domestic product (GDP) in the countries of the organization for economic cooperation and development (OECD), is considered the major demand-side factor that affects crude oil prices. In 1973, the industrialized OECD accounted for 84% of total world oil consumption (excluding the centrally planned economies).

15 - Prospects for the future

forecasts of the oil market have always been difficult to make and there is every reason to suppose that the task is getting more difficult. A number of good analysis have appeared in

the literature over the 1982-1985 period. Most of these agreed that oil prices would rise in real terms before 1990, but these was no agreement about how much the rise would be, none of these studies had forecast the sharp fall in prices or even a price collapse among the various possible price paths which could result from certain combinations of events in the market. the common conclusion that the oil price is too unstable to allow reliable forecasts of the oil price trend. The future of the oil market is thus uncertain, but a discussion of its uncertainty is useful in helping to understand the range of occurrences which are most likely to result from the behavior of certain key variables which determine the oil market. that tend us to questions, about the relationship between oil supply and pricing over the past 15 years; and recent changes in the structure of oil supply and demand.

16 - The economic impact of oil price increases

The oil prices increase transfers of resources from net oil-importing countries to net oil-exporting countries, and the amount of a country's resources that gets transferred depends on the importance of oil imports in its total income.

A calculation of the instantaneous cast of higher oil prices is really made. In the short-time, a country can do nothing to change its decisions on consumption, investment, output levels, factor mix, and so on. all it can do is to pay the higher oil bills. Let us suppose it does this by merely running down its foreign reserves (or increasing its foreign borrowing). By how much will it have to reduce foreign reserves? The required change in the reserves, expressed as a percentage of GDP, is just the percentage increase in oil price times the share in GDP of oil impacts. Thus beyond the instantaneous cost of higher oil prices, changes then take place in the economy in reserves to both the increase in prices and the loss of real wealth.

(resulting from lower foreign reserves). First, there is an attempt to reduce the cost of the higher oil prices to the economy, essentially by reducing its need for oil imports. Second, and more important for our purposes, the costs of higher oil prices are unevenly distributed among the various groups in society. Let us consider how the production system of the economy responds, and then examine the consumption side. In the energy-producing sector, higher oil prices encourage the expansion of domestic sources of oil and alternative energy sources. In the non-energy sector, producers initially face higher production costs, by three ways, first, they try to substitute other-fuels for oil and maybe reduce consumption

energy by using more of other resources. Second, by try to pass on the cost increase in higher prices.

Third, is to cut output and hence demand for all production inputs, including oil. Obviously, the process will depend on the initial structure of a country's production, trade, consumption and the possibilities for changing the structure through the various substitutions mentioned earlier.

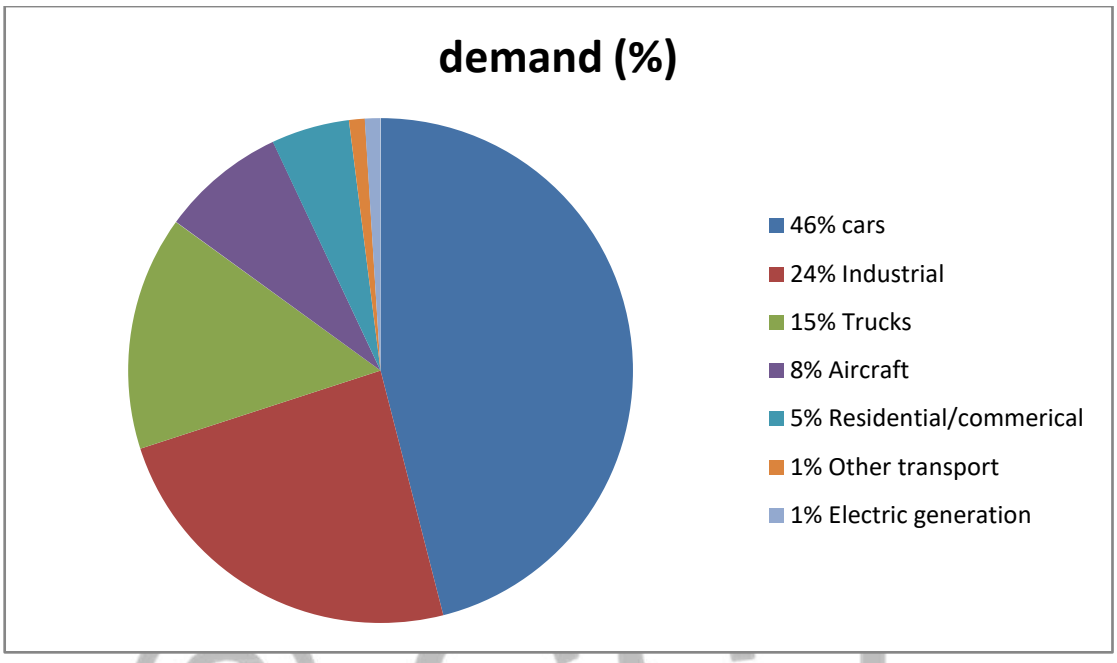


Figure 1

U.S. demand for petroleum, by sector

Source: EIA (2008)

Note: breakdown for cars and trucks was imputed from figures for motor vehicle gasoline and diesel consumption.

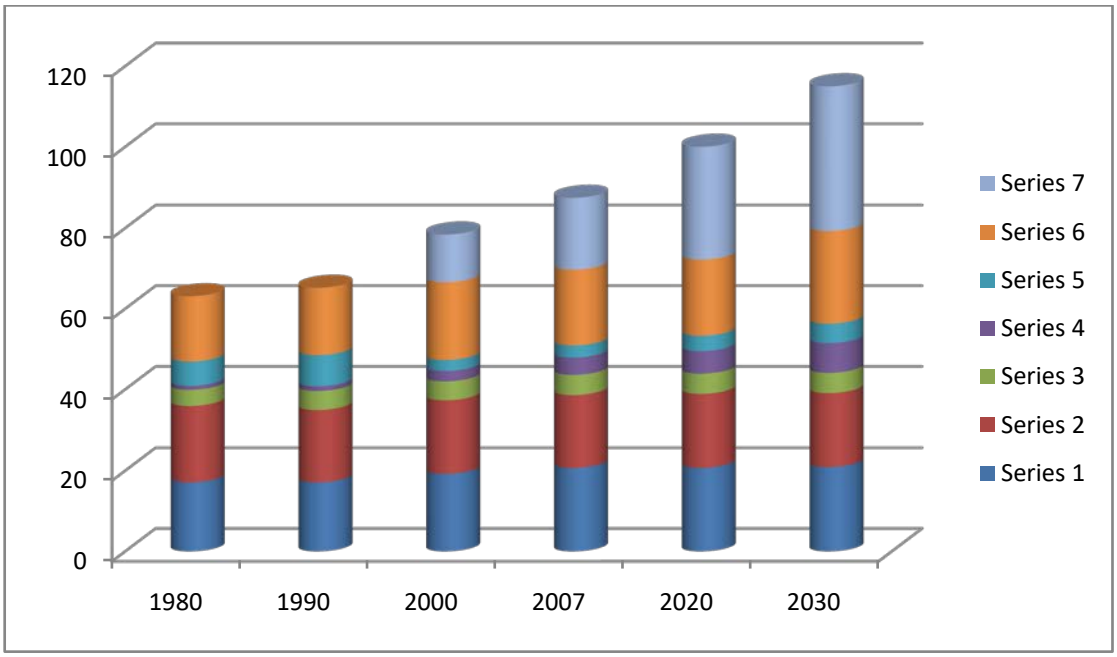


Figure 2

World oil consumption

Sources: EIA (undated, 2009a, 2008f).

Note: OECD = organization for economic co-operation and development.

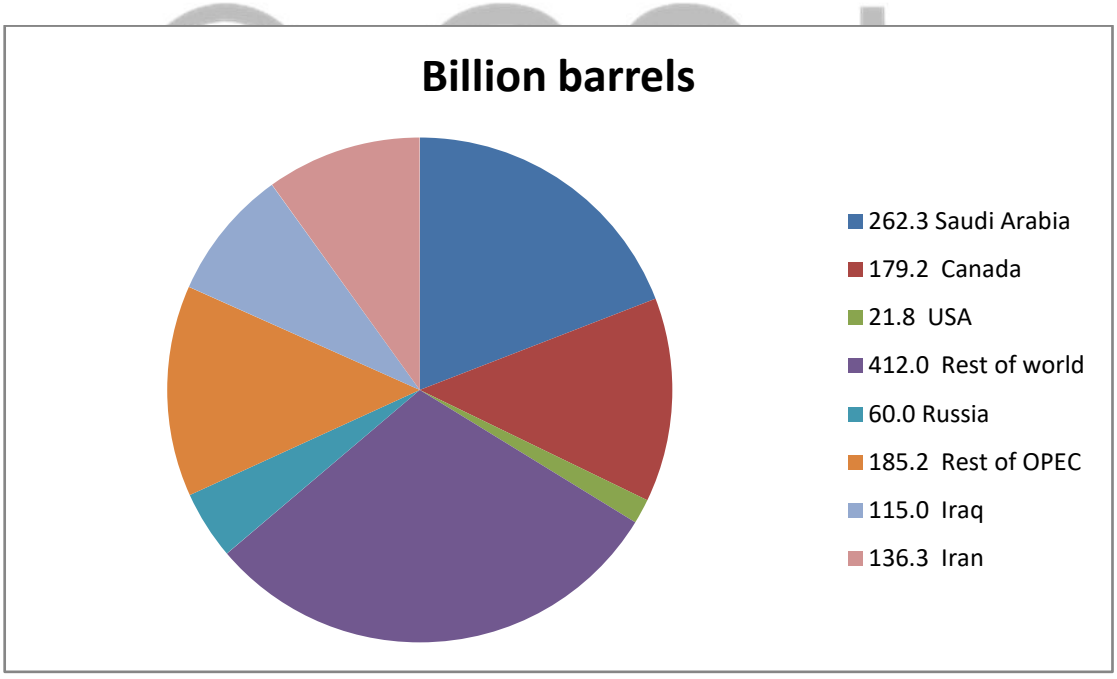


Figure 3

Global Reserves of oil

Sources: EIA (2008i).

Note: oil includes crude oil and condensate.

17 - Spot markets

Spot markets in London and New York have developed from small secondary markets, used for marking up shortfalls in deliveries or selling excess crude, to become the primary means for determining oil prices. Today's highly liquid markets bring together a network of buyers and sellers who use a wide variety of trading instruments. Contracts run in the tens of millions every day. With the advent of international markets, differences in prices across regions, other than those justified by differences in transportation costs or oil "quality" (e.g., specific gravity, viscosity, sulfur content), can't persist: traders arbitrage such differences a way. Because of trader's ability to arbitrage, the markets influence on oil prices goes far beyond just the oil traded on the markets.

18 - Futures markets

The growth of spot markets for crude oil and refined oil products has set the stage for the other major development in the structure and operation of the international oil markets: the emergence of high-volume futures trading and other forms of derivatives*(15). *Futures contracts typically don't result on actual delivery or acceptance of the product. They provide a means for both sellers and purchasers to hedge risks of movements in oil prices that they would find unfavorable. both spot and future markets allow price signals to be transmitted quickly across time as well as space: an expectation of future supply constraints will quickly be reflected in both today's futures prices and today's spot prices as inventory holders build stocks.

19 - Why are oil prices rising?

A large reason is that developing nations, like China and India, have been growing rapidly. These economies have become increasingly industrialized and urbanized, which has contributed to an increase in the world demand for oil. In addition, in recent years fears of supply disruption have been spurred by turmoil in oil-producing countries such as Nigeria, Venezuela, Iraq, and Iran(16: 8 − 9).

As far as the implications of higher oil prices, there are both microeconomic and macroeconomic answers to that question.

20 - How do high oil prices affect the economy on a "micro" level?

A consumer already understands the microeconomic implications of higher oil prices. When observing higher oil prices, most of us are likely to think about the price of gasoline as well, since gasoline purchases are necessary for most households. When gasoline prices increase, a larger share of households budgets is likely to be spent on it, which leaves less to spend on other goods and services. The same goes for businesses whose goods must be shipped from place to place or that use fuel as a major input (such as the airline industry). Higher oil prices tend to make production more expensive for businesses, just as they make it more expensive for households to do the things they normally do.

21 - What effects do oil prices have on the "macro" economy?

Oil price increases are generally thought to increase inflation and reduce economic growth. In terms inflation, oil prices directly affect the prices of goods made with petroleum products. Oil prices indirectly affects costs such as transportation, manufacturing, and heating. The increase in these costs can in turn affect the prices of a variety of goods and services, as producers may pass production costs on to consumers. The extent to which oil price increases lead to consumption price increases depends on how important oil is for the production of a given type of good or service.

Oil price increases can also stifle the growth of the economy through their effect on the supply and demand for goods other than oil. Increase in oil prices can depress the supply of other goods because they increase the costs of producing them. In economics terminology, high oil prices can shift up the supply curve for the goods and services for which oil is an input. High oil prices also can reduce demand for other goods because they reduce wealth, as well as induce uncertainty about the future.

22 - What cause oil prices to fluctuate?

oil is a commodity, and such as, it tends to see larger fluctuations in price than more stable investments such as stocks and bonds. OPEC, or the organization of Petroleum exporting countries, is the main influencer of fluctuations in oil prices. OPEC is a consortium made up of 13 countries: Kuwait, Saudi Arabia, Qatar, the United Arab Emirates, Algeria, Angola, Ecuador, Indonesia, Iran, Iraq, Libya, Nigeria, and Venezuela. OPEC control 40% of the world's supply of oil, the consortium sets production levels to meet global demand and can influence the price of oil and gas by increasing or decreasing production.

OPEC keep the price of oil above $100 a barrel for the foreseeable future, but in the mid 2014 the price of oil depression from $100 to $50 a barrel. OPEC was the major cause of cheap oil it refused to cut oil production, leading to the tumble in oil prices.

As with any commodity, the laws of demand and supply cause oil prices to change. When supply overrun demand, prices fall and the opposite is also true. The fall in oil prices can be attributed a lower demand for oil in Europe and China, coupled with a steady supply of oil from OPEC. The surpass supply of oil caused oil prices to fall sharply.

Production costs can also cause oil prices to rise or fall. While oil in the middle east is relatively cheap to extract, oil in Canada in Alberta's oil sand is a lot more costly. Once the supply of cheap oil is exhausted, the price of oil could thinkable rise if the only oil left is in the bitch sands. Also, political instability in the middle east causes oil prices to fluctuate. For example, in July 2008, the price for a barrel of oil reached $136, by the wars in both Afghanistan and Iraq. High oil prices lead to more projects, more research money and more innovation in new techniques and efficiencies. All of these activities increase supply.

23 - Cases state of Kuwait

Up to October 2015, Kuwait awarded projects worth $30billion, up around $6billion on the whole of 2014. In February 2015, Kuwait's national assembly approved a five-year development plan that envisages spending $112billion between the 2015/2016 fiscal year and 2019/2020. Projects planned include a metro system at $18.5billion, a railway project

as part of the GCC railway link at $6.6billion, and a power plant at $8biliion. Contracts worth $13billion were awarded to foreign firms during third quarter of 2015 to build a 615,000 barrel-per day refinery.

23 .1 economic development and oil exploration in Kuwait:

Kuwait covers a total area of approximately 18,000 sq.km. the estimated population in 1990 before the invasion was about 2.1 million with 38% Kuwaitis and 62% non- Kuwaitis. In 1985, the total population was about 1.7 million with 40% Kuwaitis, while in 1980 the total population was only 1.3 million of which Kuwaitis constituted 42%. The non- Kuwaitis who constituted a heterogeneous group belonging to various nationalities were less than a quarter of million in 1965 and exceeded 1.3 million in 1990. This increase of expatriated in Kuwait shows Kuwaitis dependency on expatriates for its developmental schemes. The per capital income of Kuwaitis is considered to be one of the highest in the world.

23. 2 Oil development in Kuwait

1n 1934, was established the first company of oil in Kuwait, the named is the Kuwait oil company (KOC). This company was authorized about 6000. sq. miles' area as concession land to explore for oil in Kuwait. the company started its exploration and discovered oil in the BURGAN oil field in 1938. In 1951, the second oil field known as MAGWA and oil was discovered in AHMADI in 1952, RAUDHATAIN in 1955, BAHRA in 1956; SABRIYA in 1957; MINAGISH in 1959. And in 1948, the American independent oil company (AMINOIL) started exploration on the on shore part of neutral zone and discovered oil in the WAFRA oil field in 1953.

- *Average Brent oil price, exchange rate, inflation and GDP.*

Table 1: relationship between oil price and exchange rate, inflation, GDP.

Year	*2010*	*2011*	*2012*	*2013*	*2014*
Oil price	*-*	*$114.6*	*$110.0*	*$107.5*	*$89.0*
Exchange rate	*3.48*	*3.63*	*3.57*	*3.53*	*-*
Inflation	*4.50%*	*4.91%*	*3.20%*	*2.71%*	*3.36%*
GDP	*30.8%*	*41.8%*	*43.2%*	*38.8%*	*37.4%*
Fiscal surplus		*15.8*	*12.7*	*12.9*	*8.3*

Sources: central bank of Kuwait, IBS calculations and estimates, US. Energy information administration.

During 2012 the GDP robust growth by higher oil production coupled with strong oil prices, Kuwait's GDP saw marginal growth in 2013 as oil output stabilized amid steady oil prices. During 2011, Kuwait inflation rate recorded the highest rate of 4.91%, the reason for this is the

rise in the world oil prices. And mainly attributed to the increase in housing services and education.

- *Oil price peaked at $114.6 per barrel in 2011. Falling to $25.6 in 2014, impact on government spending*
- *Fiscal surplus in 2014/15 will be KD 8.3 billion or 18.1 percent of GDP, down from KD 12.9 billion or 26.3 percent of GDP in 2013/14. This incorporates our estimate that nominal GDP will fall by 6.3 percent in fiscal year 2014/15 year-over-year.*
- *Increase the supply of oil, especially outside the oil-exporting countries such as the united states of America (shale oil production) work to reduce world oil prices.*
- *An inverse relationship between the dollar exchange rate and the price of oil.*
- *Lower oil price leading to a decrease in wealth and money and thus gives the index lower spending on vital projects in the country, leading or affect the overall economy of the country.*

Table 2 . Government Revenues and Expenditure

KWD (MN)	*2009/10*	*2010/11*	*2011/12*	*2012/13*	
Oil revenues	*16,585*	*19,947*	*28,570*	*29,970*	
Non-oil revent	*1,103*	*1,555*	*1,667*	*2,039*	
Total revenue	*17,688*	*21,502*	*30,236*	*32,009*	
Capital expend	*1,308*	*1,841*	*1,799*	*1,811*	
Other expende	*9,943*	*14,380*	*15,209*	*17,497*	
Total expende	*11,251*	*16,221*	*17,008*	*19,308*	
Surplus	*6,437*	*5,281*	*13,229*	*12,701*	

Sources: ministry of finance.

We should know the fiscal balance isn't the only factor causing a surplus or deficit. We need to consider other important dimensions not necessarily associated with the annual budget numbers. these include: what is the growth rate of the economic? What is the inflation rate? What is the level of investment and business confidence? What is occurring with consumer spending? What is the level of employment and unemployment? These are all other highly significant factors that will affect that simple fiscal balance. However,

Table of note certainly increase in oil revenues year after year and this increase reflected surplus than strengthens the financial pillars of the state and works on economic and social problems and working on solutions macroeconomic growth. Fiscal surplus is working to create new cities to create a strong infrastructure as well as to set up power plants to cope with the increase in population this leads to increase employments.

Conclusion

Economic analysis is used for two purposes. First, a scientific understanding of how allocations of goods and services- scarce resources- are actually determined. Second, weighs the gains and losses to different individuals and suggests carrying out changes that provide greater benefits than harm.

My opinion

The economic is very important for world, countries, individuals, and for firms. There are a lot of factors connected to each other's. Such as products, costs, prices, labor, leaders, buyers, sellers, and others. It is difficult to understand all elements. But economic analysis make studies, plans, and solution problems. So, we should know there are two main types, quality and variety. Quality refers to a situation where consumers agree what product is better; disagree among consumers concerns whether higher quality is worth the cost. Varieties are the elements about which there is not widespread agreement. Colors, clothes and shapes are usually varietal rather than quality. Some people like black colors, others choose white, some people love shapes, other doesn't love it. People's tastes.

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