

Oil supply cutback and increase in price

A **small** oil supply cutback can lead to a **large** increase in price. This characteristic is a favourable condition for an oil cartel as for example OPEC existed during many years. Such a cartel only works if the member countries do not cheat and, therefore, keep to the agreed quotas and if there is not a large number of outsiders.

The large increase in price is due to the **small price elasticity of demand** for oil which is above all a short-term phenomenon because the buyers are dependent on oil and cannot adjust quickly the energy usage pattern.

Graphically, the situation is as follows, assuming that the quantity supplied can be fixed effectively by a cartel:

