IN THE NEWS

Another Storm Casualty: Oil Prices

The region that produces and refines a major portion of the nation's oil and natural gas was largely shut down by Hurricane Katrina yesterday, further tightening strained energy markets and sending prices to new highs.

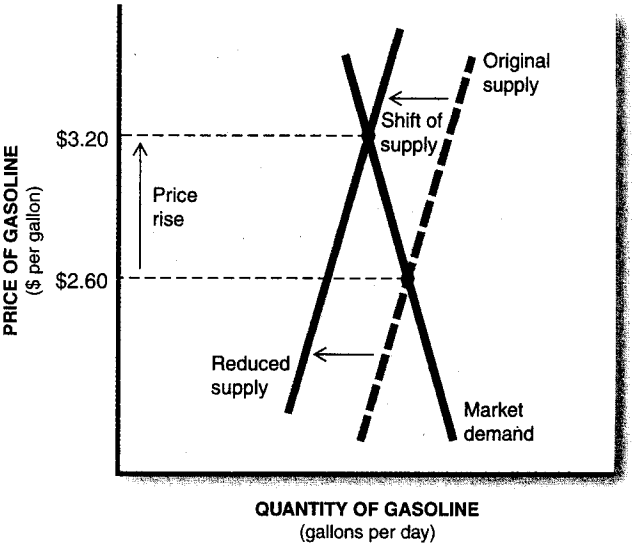
As oil companies evacuated offshore operations throughout the Gulf of Mexico, oil production in that region was reduced by 92 percent and gas output was cut by 83 percent.

The latest interruptions in oil supplies are likely to send retail gasoline prices even higher than the current average of $2.60 a gallon....

The Gulf of Mexico, which produces 27 percent of the nation's oil and a fifth of its natural gas, is dotted with nearly 4,000 platforms linked by 33,000 miles of underwater pipelines. Over the weekend, oil companies withdrew their workers from 615 platforms and 96 drilling rigs in the gulf.

—Jad Mouawad and Simon Romero

Source: From "Another Storm Casualty: Oil Prices" by Jad Mouawad and Simon Romero, *The New York Times*, August 30, 2005, p. 1. Copyright © 2005 by The New York Times Co. Reprinted with permission.



Analysis: When factor costs or availability worsen, the supply curve shifts to the left. Such leftward supply-curve shifts push prices up the market demand curve.

provide a lot of tutoring at low prices, whereas Bob requires at least $20 an hour. Cory won't talk to students for less than $40 an hour.

By adding the quantity each Webhead is willing to offer at every price, we can construct the market supply curve. Notice in Figure 3.5, for example, how the quantity supplied to the market at $45 (point *i*) comes from the individual efforts of Ann (93 hours), Bob (33 hours), and Cory (14 hours). ***The market supply curve is just a summary of the supply intentions of all producers.***

None of the points on the market supply curve (Figure 3.5) tells us how much Web tutoring is actually being sold on the Clearview campus. ***Market supply is an expression of sellers' intentions—an offer to sell—not a statement of actual sales.*** My next-door neighbor may be willing to sell his 1994 Honda Civic for $8,000, but most likely he'll never find a buyer at that price. Nevertheless, his *willingness* to sell his car at that price is part of the *market supply* of used cars. (See Webnote for more detail on the market supply of used cars.)

Shifts of Supply

As with demand, there's nothing sacred about any given set of supply intentions. Supply curves *shift* when the underlying determinants of supply change. Thus, we again distinguish

- ***Changes in quantity supplied:*** movements along a given supply curve.
- ***Changes in supply:*** shifts of the supply curve.

Our Latin friend *ceteris paribus* is once again the decisive factor. If the price of a product is the only variable changing, then we can ***track changes in quantity supplied along the supply curve.*** But if *ceteris paribus* is violated—if technology, factor costs, the profitability of producing other goods, tax rates, expectations, or the number of sellers change—then ***changes in supply are illustrated by shifts of the supply curve.***

The accompanying News illustrates how a supply shift sent gasoline prices soaring in 2005. When Hurricane Katrina shut down oil-producing facilities in the Gulf of Mexico, the gasoline supply curve shifted leftward and price jumped.