# *Examining the Role of Financial Investors and Speculation in Oil Markets*

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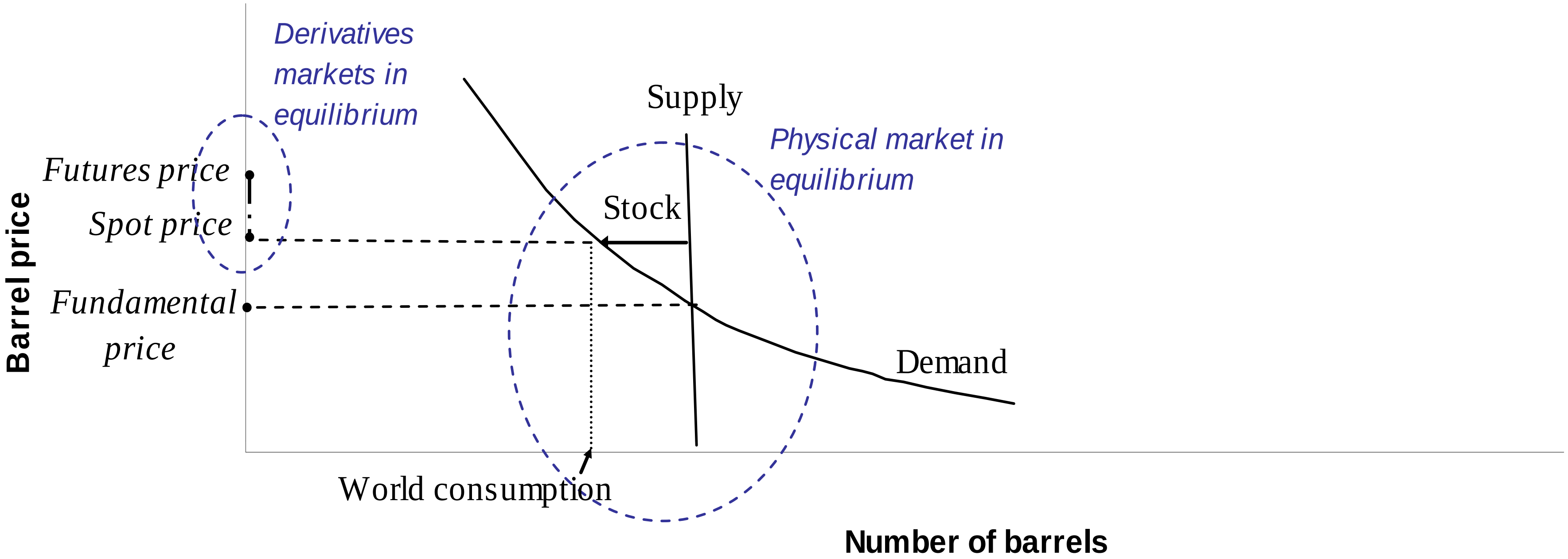
## Oil is a consumer good whose price, at economic equilibrium, is set where physical supply meets demand ...

Oil stock, variable of adjustment between financial and economic equilibriums




→ Oil storage, necessary signature of speculation

→ a continued - and not just temporary - increase in inventories for the price of physical oil to remain above the level justified by market fundamentals.

# Price elasticity of demand: a function of time horizon

**Price elasticity in the short run: -5% (?), in the long run -20% / -30% (?)**

**The demand curve plays a key role in the standard economic analysis. However, the graphic representation of a demand curve only makes sense if we consider a given time horizon (corresponding to the short run, for example).**

And in the very short run?

Oil-demand gradually adjusting to a speculative price :
price-elasticity is an increasing function of the time horizon considered.

Short- and long-run elasticities can then be used to calibrate this function.

# Merci de votre attention ....
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Denis Babusiaux, Axel Pierru, Frédéric Lasserre, “*Examining the Role of Financial Investors and Speculation in Oil Markets”* Journal of Alternative Investment, Vol. 14, N° 1, Summer 2011, 61- 74.

Denis Babusiaux, Frédéric Lasserre, Axel Pierru, “*Marchés dérivés, spéculation et prix du pétrole*”, Revue de l’Energie, N° 597, septembre-octobre 2010.