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AN ECONOMETRICS MODEL OF SHORT TERM OIL SPOT PRICE

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Overview

There are undergoing controversial views about structural or cyclical price spike in recent years. Modeling oil price using fundamental and non-fundamental factors can promote our understanding of the oil market behavior. This paper presents a short term monthly forecasting model of WTI based on econometrics methodology.

Methods

Theoretical framework derived from the pioneer study by Pindyck. Other variables standing for non-fundamental factors and capturing relatively high price levels beyond 2003 is introduced in the model. Econometrics approach applied to modelling spot oil price.

Results

Results of the model show the role of the OPEC spare capacity in the continuous oil price increase beyond 2003 and other non-fundamental factors in the studied period.

Conclusions

The results are useful to industries, governments and OPEC to manage their policies. Especially for OPEC to manage its production and investment in oil sector to influence oil price.

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