World oil prices: an economic approach is an interactive case study which teaches the mechanics of the traditional supply and demand model using the world oil market as a framework. Students will study real life events and then predict their effects on the price of oil through shifts in the supply and demand curves.

This case study has two main objectives:

- To introduce students to the supply and demand model
- To give them an insight into the global petroleum market and what affects the price of oil
The student begins the exercise in the year 1970 and works through to the present day passing through a series of important events that had an effect on the world oil price. After studying each specific event, the student has to shift the supply and demand curves to reflect the impact of the event.

Event 16 Jan - 1979

Iranian Revolution

The Shah of Iran and his wife, Empress Farah, flee to Egypt in response to violent protests against the Shah’s regime. Despite reports from the Shah’s officials stating that he left the country to take a holiday and receive medical treatment, he was in reality asked to leave by the Prime Minister (appointed by the Shah himself earlier that month). Despite the mass street celebrations marking his departure, the US and UK continue to express support for the Shah. The tension surrounding the event led to a major oil production strike.
Once students have made their prediction about how the event affected world prices using the supply and demand model, detailed feedback shows them how prices reacted after the event and the specific reasons. Throughout the case, photos of each of the events set the scene for the analysis.

The massive increase in supply by Saudi Arabia had the effect of pushing the supply curve out to the right (S1 to S2), reducing the price from P1 to P2.

Over the next year prices fell to just above $20/barrel. Despite the great fall in prices, Saudi Arabia managed to maintain revenues around the same level as before thanks to its increased production levels.