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ViewPoint

Could Oil Reserves Help the Economy?

Unrrest in North Africa and the Middle East increased volatility in gasoline prices during the first six months of this year. The change in prices has negatively impacted U.S. consumers. **During the last week of June the U.S. government announced that it had agreed with 27 other nations to open national oil reserves.**

Oil reserves were used in 1991 during Desert Storm and following Hurricane Katrina in 2005. The official reason for releasing reserves this time is a low supply of oil in Europe. However, critics have suggested political gains as motivation. **As investors, we should consider the economic impact.**




The United States plans to supply 60 million barrels of oil from its over-700-million-barrel reserve. It sounds large, but it is a fraction of total U.S. demand and unlikely to have a large impact. If this action does affect the economy is it more likely to help or hurt?

Economics 101 teaches that if supply goes up then prices should fall. If gasoline is cheaper then consumers will have more discretionary income to spend. **In other words, lower prices could act as an economic stimulus similar to a drop in taxes.**

The announcement led to a fall in the price of oil, which was already well below its highs for the year. The price of oil ended the announcement day around \$91 a barrel. **Any real impact would require more than a one-day drop in prices.**

If any positive impact is felt, then the reserve could be a temptation for politicians in the future. Regarding economic stimulus, there are better ways to make lasting changes in energy prices.

The total impact may be difficult to measure as well. Oil prices may continue to rise and fall with the stock market and the economy. Of course, there are no guarantees. 

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