ExxonMobil Market Analysis of Gasoline Supply Demand Costs and Pricing

Posted on August 27, 2019

View this essay online:
https://academic-master.com/exxonmobil-market-analysis-of-gasoline-supply-demand-costs-and-pricing/

ExxonMobil is a multinational corporation operating in several countries worldwide. It has its headquarters in the United States, where it operates some drilling fields. It has gas stations across the country and, therefore, is one of the biggest stakeholders in the gas and oil industry in the United States. ExxonMobil's business model is drilling oil offshore and also selling oil and gas to local consumers. The company sells oil and gas to corporations, nations and even local consumers, which makes the company one of the companies with a wide list of clientele.

Problems Of The Industry

A report by Deloitte, "The Reality Check in Oil and Gas," indicates that the problems in the oil and gas industry are not yet over (Botes 34). It states that the oil and gas industry experiences unstable prices due to fluctuations in the demand and supply of gas across the world. Botes (14) noted that the prices of gas and oil in the United States are determined by outside factors over which the United States has no control. The stability of the Middle East, where a higher volume of American gas and oil is exported, usually determines the stability of the price. This creates a low supply of gas at a time when demand is very high. Another problem is the oil and gas industry's high competition from local stakeholders or companies that do not have a lot of overhead compared to ExxonMobil.

Recently, the United States stated that it will start exporting oil and gas (Nicholson 10). It means that the supply of gas in the United States is therefore likely to increase for the valued commodity in the market. In addition, oil and gas crashes and bankruptcy of other oil companies are some of the problems normally experienced in the oil and gas industry.

Supply And Demand And The Price System Graph

The current situation of oil and gas in the United States remains positive. The prices remain stable, and the supply of oil and gas is also constant and steady. According to Blackmon (12), the situation is caused by the decision of the United States to drill offshore gas and become an exporter as well. The situation is also caused by the agreement with importers of oil and gas, which has kept the prices fairly low and stable for the first quarter of 2018 (Blackmon 4). Though the demand for natural gas is increasing daily, the price is still steady and remains positive due to constant supply. Currently, the

demand for oil and gas in the United States is high since most industrial sectors use oil and gas. As stated by Blackmon (15), the current demand for oil and gas in the U.S. is low based on the fact that the supply of oil and gas is high as well. However, when it comes to natural gas, the demand is high since there are few suppliers.

However, based on the analysis of the graph in Figure 1 below, the U.S. gasoline demand curve shows that there has been a shift in demand from May 2017 to February 2018. Currently, the demand is low compared to last year, April and May, and therefore, the price of gasoline is low as well. This means that there is a high quantity of gasoline supplied in the U.S. market. In February, the demand for gasoline was very low, but from March, it started to increase slowly, and the increase was based on several factors, such as the escalating conflict in Syria and the reduction of gas production by Saudi Arabia, which is the main exporter of gas to the United States. The shift of the curve can also be a result of the stoppage of offshore gas drilling in the United States, which was being done early this year. It is noted that from November to February, Saudi Arabia increased its production and, therefore, affected the market since the supply was high, the price was low, and the demand was low as well.

The Supply Curve Situation: Is The Curve Changing?

Currently, there is a high quantity of gasoline supplied in the U.S. market, and therefore, the prices of gasoline are low (affordable) compared to last April. The quantity supplied is high because the price of gasoline is stable. It is not low or high, and the demand is stable based on the current market situation. The graph below (Fig. 2) indicates that the supply of gasoline has been steady since December 2017. It indicates that the supply has been increasing steadily, and this lowers the price of gasoline. The graph indicates that in March 2018, a total of 260 barrels of gasoline was supplied to the market compared to 210 barrels in December 2017. The curve shift can be a result of increased production of oil and gas from Saudi Arabia and the drilling or production of offshore gas by the United States, which has been ongoing since December 2017 after being directed by U.S. President Donald Trump. Higher production of a commodity affects the price since the quantity supplied will be high; therefore, the high quantity supplied of oil and gas affected the curve and caused the shift in the supply curve.

Market Equilibrium Of Gasoline

The market equilibrium is when the demand and supply of a commodity are equal, and therefore, currently, the demand for gasoline in the United States is equal to the supply (McFarlane 10), and it is the reason there is no gasoline crisis. The quantity demanded for gasoline is equal to the quantity supplied of gasoline in the United States. Therefore, the equilibrium price of gasoline in the United States is $2.65. It is also evident that the current price of gasoline in the market ranges between

$2.45 and $2.75, which is equal to what is reflected in the graph below. When there is a shortage of gasoline in the market, the quantity supplied will be low. The demand for gasoline will be high, and the price will increase as well. This happens because suppliers will be fewer while the buyers or users are several in the market. It will force the few suppliers to increase the price of gasoline.

A price ceiling is the highest price set by the government, beyond which the price of a commodity cannot go or be charged. In most cases, the government imposes a price ceiling to protect consumers from being overcharged. Based on the analysis of the graph, the price ceiling of gasoline is $2.35. It therefore means the price of gasoline cannot be charged above $2.35.

Change Of Income

Change in income changes the demand curve based on whether the goods are inferior or normal. According to Adelman (25), a change in income increases the demand for goods such as food and other basic needs and, therefore, the prices of these goods increase as well. Therefore, the price of normal goods will increase because the quantity demanded will increase. However, the price of inferior goods is likely to remain the same, and demand may remain the same as well. Inferior goods are rarely affected by an increase in income because purchasing or demand depends on an individual's interest and plan to purchase such products.

Change In Prices Of Related Goods

A price change in related goods affects the price and demand of such products in the market. In the case of gasoline, an increase in the price of solar panels and natural gas would automatically create a higher demand for gasoline, and therefore, the prices will increase. It is because any increase in the quantity demanded affects the price of the commodity or goods. When the price of substitute goods changes, the change affects the price of gasoline and supplementary goods. The change in the price of independent goods does not affect the price of gasoline, and whether the price decreases or increases, the gasoline price will not be affected.

Cost Profit

A Short-Run Cost

A short-run cost is indicated when a company's production reduces or falls below the target. There can be a number of factors, but it can be a result of lower or declining demand for such products or commodities from the market. It affects profitability because it reduces the total revenue or returns. The graph below indicates that fixed cost is constant whether the company produces goods or not (Maclachlan 23). This is because the cost of production is the same, and it does not matter whether it

produces a lot of products or not. In this case, the graph indicates that the company does not make any profit. It incurs losses due to spending much money on production, and the value of goods produced cannot pay for the production cost. On the graph, the output is less than the cost of production. It means that the company will not be able to make any profit.

Long-Run Cost

Long-run cost is the time when factors of production are variable, and therefore, the company is able to adjust the cost so that it can reduce the cost of production of products. A company is able to influence the prices and, therefore, can easily make some adjustments so that it does not make losses. However, in the long run, the company makes a profit since the cost is lower than the output.

Conclusion And Summary

The analysis of the oil and gas industry indicates an unstable trend whereby the prices of gasoline keep fluctuating due to changes in demand and supply over the years. Research has established that the changes are caused by several factors, some of which are global. Therefore, the United States should take necessary actions that can stabilize the market. The economic problem can be corrected by establishing a permanent solution, and in this case, the United States should start drilling oil and gas from its offshore reserve. This will help in stabilizing the quantity supplied of gasoline, and therefore, prices will remain stable. However, the study established that demand affects the price of gasoline, and when the demand is high, the price is high as well. Therefore, it is essential for the government to establish a steady supply of gasoline to the United States whereby even if there is conflict in the Middle East, the supply of oil and gas still remains steady. It will help in having a steady price of gasoline, which is good for the economic growth of the nation since oil and gas are used in all sectors of the economy.

Works Cited

Adelman, M. A. “Crude Oil Supply Curves: Center for Energy and Environmental Policy Research.” Massachusetts Institute of Technology, Cambridge, MA 02139, USA (2018): 2-45.

Blackmon, David. “The State Of The U.S. Oil And Gas Industry Is Strong As 2017 Comes To A Close.” Energy (2017): 2-18.

Maclachlan, Fiona. “Long-run and short-run cost curves.” (2015): 2-24.

McFarlane, Greg. “Oil Price Analysis.” The Impact Of Supply & Demand (2017): 2-15.

Nicholson, Lucy. “The oil industry has a lot of problems.” Business Inside (2016): 2-15.