

To: Department of Energy Detective
From: The President of the United States
RE: The High Price of Oil

As you know, the price that Americans must pay for gasoline at gas stations around the country has risen dramatically over the last few years. Many citizens are blaming me for the high price of gas. Obviously this hurts me politically. I am not happy.

I have a plan to blame those countries that are part of the OPEC (Oil Producing Exporting Countries) Cartel for the high price of gasoline. But I am not certain if this is fair. Therefore, I would like you to determine whether or not it is appropriate for me to blame this problem on OPEC nations.

In order to determine if it is appropriate for me to blame the high price of gasoline on OPEC nations, I would like you to answer the following questions:

1. What nations are in OPEC?

Member nations of OPEC include: Algeria, Indonesia, Iran, Iraq, Kuwait, Lybia, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela. Found at: <http://www.opec.org/aboutus/>.

2. What does OPEC do?

The OPEC MCs coordinate their oil production policies in order to help stabilize the oil market and to help oil producers achieve a reasonable rate of return on their investments. This policy is also designed to ensure that oil consumers continue to receive stable supplies of oil. Also found at: <http://www.opec.org/aboutus/>.

3. Have OPEC nations increased the price that they charge for oil in the last few years?
How do you know this?

Yes, OPEC prices have gone up in recent years. I know this because the OPEC Basket Prices graph shows an increase from 2001 to 2006. Students can follow the link on this document to attain more recent oil prices. A basket price is simply the average price of different kinds of oils. Students should quickly recognize that OPEC prices have gone up in recent years. Found at: OPEC Basket Prices.

4. Are any other entities, aside from OPEC nations, involved in the production and sale of gasoline? If so, what kinds of entities? (Explain what each of these entities does to help produce gasoline)

Large companies such as Exxon Mobil are responsible for refining oil, which is changing it into gas that cars can use; local gas stations are typically owned by local individuals. Both the large companies and the local individuals must make a profit. Found at: <http://www.eia.doe.gov/emeu/plugs/plprimer.html>

5. What percentage of the money spent on gasoline does each of the entities involved in the production of gasoline receive when gas is sold?

The breakdown of money looks like this. 37% crude oil; 36% federal and state taxes; 13% refining costs and profits; 14% distribution, marketing, retail costs and profits. The point of this question is for students to recognize that numerous entities in addition to OPEC nations are involved in the business of gas production and receive revenue from the sale of gas. Found at: <http://www.eia.doe.gov/emeu/plugs/plprimer.html>