Gasoline Prices
Study Questions

1. According to the Energy Information Administration of the U.S. government and others, what are the components of the retail price of gasoline? That is, what percentages of the price are the results of crude oil, taxes, etc.? Obviously, a large part of the cost basis is the price of crude oil. Some argue that crude oil prices have been driven up by speculators. According to the articles we read, what part of the current oil prices are the result of speculation? What is oil speculation? What proposals have been discussed to reduce speculation?

2. What are the factors behind the increase in gasoline prices since 2005? What about the recent increase in gas prices?

3. We often hear or read that oil companies like Shell and Exxon-Mobil are making “too much profit” on gasoline sales and are “gouging” the American public. Does the actual evidence support this? How much profit does the typical oil company make on a gallon of gas? How does this compare with the “profit” (taxes) take by the state and federal government? How do oil company profit margins, income per share, etc., compare with similar performance measures of firms in other industries? What conclusions can you draw?

4. At times, critics of oil companies confuse gross profits with net profits, and profits from continuing operations with profits from the sales of assets (other than inventory). Explain these terms.

5. What do refineries do? How do they produce the different oil-based products from crude oil? Why do gasoline prices differ across the country?

6. Discuss ethanol as a solution to dependence on imported oil and fossil fuels. Is corn-produced ethanol viable as a gasoline alternative? What are its advantages? What factors limit its usefulness as a gasoline replacement or additive? Discuss the costs and net payoff from ethanol production, imports of ethanol, government subsidies, and the quality (efficiency) of ethanol as compared with gasoline. Is U.S. gasoline cheaper as a result of ethanol? Explain.

7. Is it really possible for the U.S. to end its dependence on foreign oil by producing biofuels (at present). Explain and provide statistics, estimates, and projects to support your arguments.

8. Do hybrid cars save oil? Analyze the use of hybrids as a means of conserving fossil fuels. Hybrids apparently get better gasoline mileage, but does that mean that they are less polluting and use less fossil fuel? What about the cost of operating a hybrid vehicle? Discuss “dust-to-dust” costs of hybrids, and compare that (informally) to conventional vehicles.
9. If Americans reduce their gasoline consumption, will that reduce the price of gasoline? Will it result in lowered usage of fossil fuels worldwide?

10. Is ethanol “green”? That is, does ethanol production and use create less pollution, have a smaller “carbon footprint” than do fossil fuels?