Increase in Oil Price and Its Impact on Consumer Buying Behavior

Nazir, Erum

30 September 2006

Table of Contents

CHAPTER #1

PROBLEM STATEMENT AND ITS BACKGROUND

A. Introduction

1.1 Evolution

1.2 History of oil

1.3 Oil shocks

1.4 The impact of oil shock

1.5 Present values

1.6 prices of essential food items

B. Oil Producing Countries

C. Causes Of The International Oil Prices High

D. Statement of the problem

E. Significance of the study

F. Scope

G. Delimitation's

F. Definition of terms

A. INTRODUCTION

The oil is the lifeblood of economic activity and thus oil prices always tends to create economic trepidation. Oil is a unique commodity in the economy it heats homes; it allows goods to be distributed across the country, and it is the base for countless petroleum based products. Importance of petrol in daily life is quite apparent. Petrol is a strategic fuel for economic lifeline

Domestic prices of petroleum and petroleum products play a decisive role in making or breaking the economy of a country. Since most of this commodity is imported in Pakistan, there is not much one can do about keeping the domestic prices from being influenced by the international prices which have a tendency to fluctuate, mostly on the higher side, on day to day basis. The continuous rising prices of petroleum products is not only giving fits to the consumers, but also putting extra burden on their pockets. It is usually the consumer who feels the burden of higher domestic prices of petroleum and its products, not only directly but also in the shape of higher costs of production and transportation, which are passed on to the end-user.

What is required, therefore, is for the price control committees to keep close and constant vigil on the behavior of prices, to ensure that these are not unduly increased on the pretext of the recent review of the prices of petroleum products.especially the poorer class of people, totally dependent on kerosene oil as the only source of cooking their meals to live on, received an all-out jolt when the prices of oil and oil-related liquids were increased.

- **Pakistan total oils Reserves** (1/1/05E): 288 million barrels.
- **Oil Production** (2005E): 61,769 barrels per day (bbl/d), of which 60,000 bbl/d was crude, **Oil** (Pakistan posted a refinery loss of 1,231 bbl/d in 2003).
- **Oil Consumption** (2005E): 360,000 barrels per day.
- **Net Oil Imports** (2005E): 298,231 barrels per day.

It may be recalled that during the first eight months of this year (Jan – Aug 2005), the government has increased oil prices five times by a cumulative 25-27%. In the August 31, 2005 review, 7.5% and 7.6% raised MoGas and HOBC prices respectively, and price of Kerosene Oil marked 5.0% increase.

1.1 EVOLUTION

Ancient Peoples used crude oil for fuel, as a sealant, as body paint, and for medicinal purposes hundreds of years before the first white settlers arrived. A major breakthrough in the use of petroleum occurred in the 1840's, when a Canadian geologist named Abraham Gesner discovered kerosene. This fuel could be distilled from coal or oil. Kerosene became widely used for lighting lamps, and oil quickly rose in value. People have used petroleum since ancient times. The ancient Chinese and Egyptians burned oil for lighting. Before the 1850s, people often used whale oil to light their homes and shops. When whale oil became scarce, people began looking for other oil sources. In some places, oil seeped naturally to the surface of ponds and streams. People skimmed this oil and made it into kerosene. Kerosene was commonly used to light homes before the arrival of the electric light bulb.

1.2 HISTORY OF OIL COMPANIES

Petroleum exploration in Pakistan began more than a century ago. The first well was drilled in 1866 at oil seepage Kundal in the Mianwali District of Punjab Province. Right after seven year of World’s 1st well Drilled in 1859 in Titusville, Pennsylvania by Edwin Drake. Activities continued during the last quarter of the 19th century with sporadic attempts to drill shallow boreholes, as in rest of the world, the earlier exploration focused on seep-ages. Mainly in the Sulaiman Fold Belt. Discovery of oil at Khattan in Balochistan was the main success where thirteen shallow wells produced 25,000 barrels of oil between 1885 and 1892. The Government of Indio-Pak controlled the drilling activities during this early phase. Up to 1883, a number of shallow wells were drilled by the Government agencies, However, due to rapid decline in production the Government agencies subsequent lost their interest in oil exploration. After independence in 19.47,need for an appropriate legislative framework to organize the petroleum sector was strongly felt and in 1949 the Pakistan Petroleum (Production) rules were introduced. These rules contained incentives that triggered a new wave of exploration.

After promulgation of these rulers, Attock Oil and Burmah Oil companies established Pakistan Oil Fields LTD (POI.) and Pakistan Petroleum Ltd **(PPL),** respectively, as their subsidiary companies sharing 70:30 in rupees with the Government of Pakistan and private sector. Pakistan Petroleum LTD discovered a giant gas field in 1952 at Sui (Eocene, 8.6 tcf) and a pipeline to Karachi was completed in 1953.

This discovery generated immense interest in exploration and five major foreign oil companies, namely, Standard Vaccum, Hunt International, Shell Oil, Sun Oil and Tide Water, entered joint ventures with the Government and commenced extensive exploration. These companies drilled about 45 exploratory wells and tested33 structures selected on the basis of detailed geological and geophysical surveys. This phase brought discouraging results and the exploration activity declined sharply and nearly came to a halt. The Pakistan Stanvac project discovered at Mari Gas Field Southeast of Sui in 1957 but due to the presence of inert gases the development was delayed for several years. During the same period gas was also discovered, mostly by PPL, at Zin (1954) Uch (1956), Khairpur (1957), Mazrani (with Hunt 1959) and Kandhkot (1958).These fields however remained dormant due to fiscal and technical reasons. No new oilfield was discovered except for a very small one at Karsal (1956) in Potwar where production declined very rapidly. The Government of Pakistan decided to enter directly into oil exploration and with assistance from U.S.S.R. established the Oil and Gas Development Corporation (OGDC) in the public sector in 1961.

OGDC was granted Concessions in several areas and by 1966 were the dominant prospector in Pakistan with nine geological surface parties, three gravity parties, six seismic crews and one aeromagnetic crew. The resultant OGDC drilling program led to a small yet significant gas discovery at Sari Singh in 1966, the first in the Lower Indus Basin. In 1968 after OGDC discovered Tut Oilfield (1967) and POL discovered oil at Meyal (1968) several foreign companies began to show interest in Pakistan. As a result the Government of Pakistan signed agreements with American Oil Company (AMOCO) and Wintershall in 1969, the former for onshore and later for offshore Indus Basin.

Marathon Oil Company of USA was also granted huge Concession in 1973 along the Makran Coast, half onshore and half offshore.

Wintershall withdraw after drilling three dry offshore wells and Marathon closed its operations after drilling one onshore and one offshore well. Amoco continued its drilling program but without success in Middle Indus Basin. In 1976 OGDC announced the discovery of condensate / gas field at Dhodak and discovered gas at Pirkoh in (1977).From 1982 to1987 there was a considerable acceleration in Petroleum exploration. While activity continued to be dominated by Union Texas in Badin Block, Occidental reported the most prolific discovery at Dhurnal-1 in Potwar region in 1984.During mid nineties to the end of the century companies like Lams, Premier, Shell along with new comers like Tullow Oil of Ireland and BHP of Australia became active and as a result gas was discovered at Sara, Suri, Chachar, Zamzma, Bhit and at Zarghun, all in the Middle Indus Basin and Kirthar province except Zarghun which is located in Bolan Concession in Baluchistan.

At present four blocks in the Indus Offshore region are held under license two by Total, one by Shell and the fourth one by British Gas. Ocean Oil has two Offshore / Onshore adjacent blocks along the Makran Coast. The lack of success and high cost of exploration has mainly caused the slow pace of exploration in offshore areas

1.3 History of oil prices hikes

The price of crude oil increased nine-fold within a few months, reaching a level that in real terms has never been equaled, Let’s take a quick look over history,

Oil before WWII: "A Cure for Kidney Stones”

Oil has been around for a while... But the true importance of oil worldwide wasn't understood until World War II. For example: Oil in the 1860s, May, wasn't for fuels. As William Fowler wrote, oil in the 1860s was hailed as "a disinfectant, a vermin killer, hair oil, boot grease, and a cure for kidney stones."

Before World War II, the issue was too much supply

In 1933, Americans paid $275,000 to Saudi Arabia's King Ibn Saud for an oil concession. He thought he'd sold the Americans sand, as the Brits didn't think there was oil there. After five years of disappointment, the Americans struck oil in Saudi Arabia. One expert at the time described Saudi Arabia's oil as "the single greatest prize in all history."At the same time (March 1938) on the other side of the world, the Mexican government expropriated the assets of the U.S. and U.K. oil companies in Mexico.

This woke big oil up to the real risks of doing business in undeveloped countries. Until the end of the 1940s, the U.S. and Latin America provided Europe's oil.Starting after World War II, it was clear that the world was going to need a lot of oil... more than Socal and Texaco in Saudi Arabia could provide. In 1951, the Iranians simply took the oil industry from the Brits, nationalizing its oil industry. Nationalism was rising in the Middle East, and the balance of oil power was just beginning to shift.

OPEC: The Shift of Power to the Middle East

OPEC was formed in 1960. A Venezuelan and a Saudi got together over a soda in 1959, and thought of collusion. August 1960 was the last straw for the Middle Eastern countries, as the major Western oil companies lowered oil prices yet again. OPEC acted unilaterally to rise prices for the first time in 1963.In what gets to be an old story; Libya was then discovered to have vast oil reserves. An U.S. company built the infrastructure. Then the terms were changed drastically by the Libyans. Libya became the first producing country to dictate the terms to the West. This change was huge... The heyday of the U.S. majors was over. Now the Middle East held all the cards. The major oil companies had basically controlled oil prices from the end of World War II until 1973. Their day was done.

Nixon, the Shah and the 1970s "Oil Shocks"

The Arab Israeli War (the Yom Kippur War) broke out in 1973. The "oil weapon" was then used by the Arabs to squeeze the States - the Arab oil embargo caused a panic in the West, as oil soared and subsequently so did gas prices. Oil prices are driven by politics in the short run and by economics (supply and demand) in the long run, a quick glance over history suggests. Oil prices could fall from here, as war and supply tensions fall.

OPEC had the pricing power now. So Western companies started a hunt for oil outside the Middle East. Soon more oil was being produced from the North Sea than from many OPEC countries.The Shah fell in the Iranian Revolution in 1979, and Western influence over Mid-East oil shrank even further. Two weeks after the fall of the Shah, the anti-western Ayatollah Khomeni came to power, and the Second Oil Shock hit the West, this time in 1979.In the Second Oil Shock, of 1979; there was a panic... But in reality there was no shortage of oil. Oil touched $40 a barrel, and OPEC felt it could raise oil prices at will. In hindsight, it was the height of OPEC.In the 1979 demise of the Shah, Saddam Hussein saw opportunity... he set out to either take control of Iran's oil or destroy it. The Iran-Iraq War ran for eight years, until both sides threw in the towel.

OPEC's Importance Shrinks and Market Forces Take Hold

Oil was discovered in Alaska and, by the early 1980s, a quarter of U.S. production was coming from Alaska. By 1983, four years after the Second Oil Shock, it was clear there was plenty of supply and no increase in demand, so OPEC had to cuts its prices. OPEC was forced to institute production quotas to limit production and keep prices up. In 1986, oil prices fell from $29 to $10 a barrel. Market forces now ruled, as oil prices were set in the futures markets in New York (that started in 1983). OPEC was no longer in the driver's seat. With prices falling, oil companies had to shrink. The price of oil swiftly rose above $40 a barrel during the war, and then it fell back down.
Spikes in oil prices correspond closely to downturns in the economy. The last four recessions were all associated with restrictions in the oil supply during the periods of 1973-74, 1979-1981, 1990-1991 and 2000-2001.“In the recent recession, most economists believe that a slowdown had actually begun before the 9/11 terrorist attacks,”

1.4The impact of oil shock

Oil price shocks have repeatedly had a negative aggregate impact on global economic activity. The reason for this has to be mainly sought in the response of economic policy in countries affected by an oil price shock. Inappropriate reactions, particularly from those responsible for wage and monetary policies, can aggravate the situation and lead to losses in economic activity that could otherwise have been avoided.

Inflation

Inflation, as measured by the changes in the Consumer Price Index (CPI), averaged 9.3 per cent during the first ten months (July - April) of the current fiscal year as against 3.9 per cent in the same period last year. At 9.3 per cent, inflation is at 8-year high in 2004-05.Food inflation recorded at 12.8 per cent compared with 4.9 per cent for the same period last year. Non-food inflation rose to 6.9 per cent as against 3.3 per cent in the same Period last year. Core inflation, arrived at 7.4%.

1.4 **Present values**

The recent sharp rise in oil prices has created concerns about their impact

On all countries, high and low income, both net oil importers and oil exporters
The increase in the domestic prices of petroleum and its products it will have considerable impact on the economy and the consumer. The prices of **motor spirit, kerosene oil, high octane, diesel oil** increased, in view of the unprecedented recent rise in international oil prices and those of various petroleum products. As a result of the latest increase in the domestic prices of petroleum and its products, the cost of energy inputs will go up for the economy. The consumer will face an increase in the price of essential items

The continued rise of oil prices already hit many sectors and economists rightly believe that poverty has increased. The impact started coming in different forms and shapes. The first and most hits are the poor class of the country, which constitutes majority of the population. Forty percent of the people in the country are still living below the poverty line, which means they can hardly get a one-time meal a day. Higher oil prices mean higher food prices, higher transportation cost and higher utility bills.

Pakistan has recently increased petrol prices by Rs3.67 per liter or 7.4 percent and secretary Oil Marketing Companies (OMC) said that the country had to bear an additional RS 65 billion because of high oil prices. Household budgets are shrinking day by day because we have to buy the products in the same income, which we are previously getting i.e. prices of goods increases but income is not increase the consumer had been burdened with a high rate of inflation, over nine percent.

1.5 Prices of Different Fuels and Increase in Prices of Essential Items:

FUELS	Year 2004	Year 2005	% Change
Crude oil (per barrel)	**$45**	**$53**	**3%**
Kerosene oil (per liter)	**18.95**	**22.12**	**3.14%**
Furnace oil (per liter)	**11,381**	**12,796**	**14.15%**
Petrol(per liter)	**42.12**	**52.31**	**11%**
Diesel (per liter)	**21.38**	**23.92**	**2.5%**

Spices per(kg)	Year 2004	Year 2005	Percentage Change
Red chilly	60	65	5%
Grinned	65	70	5%
Coriander	53	70	7%
Clove	220	375	15%
Cardamom	560	800	24%
Pulses (per kg)	**Year 2004**	**Year 2005**	**Percentage change**
Masoor	32	35	3%
Arhar	28	36	8%
Kabuli channa	26	30	4%
mung	30	26	4%
Tea (200gm)	**Year2004**	**Year2005**	**Percentage change**
Tapal	51	54	3%
Lipton	58	60	2%
Supreme	49	50	1%
Milk (1000gm)	**Year 2004**	**Year 2005**	**Percentage Change**
Nido	199	215	16%
Every day	194	205	11%
Millac	202	206	4%

B: Oil Producing Countries

Country	Billion barrels(year 2005)
Saudi Arabia	265.3
Kuwait	98.8
Iraq	115
Iran	96.4
UAE	62.8
Russia	54.3
Venezuela	47.6
China	30.6
Libya	30
Mexico	26.9
Nigeria	24.1
United States	22
Algeria	12.7
Norway	10.1
Indonesia	9.7
Angola	9
Brazil	8.5
Oman	5.8
canada	5.8

C. Causes Of The International Oil Prices High

For the most part, high oil prices reflect high and growing demand for oil and limited (and uncertain) supplies.

World Oil Demand

World oil consumption rose by about 2.7 million barrels per day in 2004, with the mature market economies accounting for only about one-fourth of the increase. Demand in the emerging economies rose by almost 1.9 million barrels per day, Current growth in the emerging Asian economies is beginning to show signs of a return to the rapid economic expansion of the early and mid-1990s. Latin America's oil demand continues to grow at a modest rate.oil demand is expected to show a modest increase for 2004. In 2005, global oil demand is expected to grow by about 2.2 million barrels per day.

Add to the above factors, damaging hurricane seasons in the Gulf of Mexico and the added weight of Chinese and growing Indian oil demand, not to mention the threat of geo-political factors, and a bet on higher oil prices does not seem unreasonable. At the same time, the global economy has not taken a major nosedive. In the past, oil prices spikes have resulted in economic downturns or recessions.

World Oil Consumption

Growth in world oil demand averages 1.9 percent per year over the forecast period. Most of the world's incremental oil demand is projected for use in the transportation sector, where there are currently no competitive alternatives to petroleum; however, several of the technologies associated with nonconventional liquids (gas to liquids, coal to liquids, and energy crops that can be used to produce ethanol and biodiesel) could reduce the pressure on conventional oil supply from the transportation sector.

Of the projected increase in oil use in the reference case over the 2002 to 2025 period, 61 percent occurs in the transportation sector .The industrial sector also accounts for a fairly large share of the projected increase in world oil consumption: 28 percent of the increase is expected to be for industrial sector uses, mostly for chemical and petrochemical processes.

On a regional basis, two parts of the world account for most of the projected growth in world oil demand: emerging Asia and North America, oil consumption in the mature market economy regions grows much more slowly—by 0.3 percent per year—in both Western Europe and mature market Asia, reflecting expectations of slow growth or declines in population and economic growth over the next two decades.

In the emerging economies, strong expansion of oil use is projected, as robust economic growth fuels demand for oil to fuel burgeoning industrial sectors and rapidly expanding transportation use. The fastest growth in oil demand is projected for the emerging Asian economies, at an average rate of 3.5 percent per year over the forecast period, and the other emerging economy regions also are expected to experience fast-paced increases in oil use. From 2002 to 2025, consumption of petroleum is projected to increase on average by 2.1 percent per year in the Middle East, 2.5 percent per year in Central and South America, and 2.7 percent per year in Africa

Sipply Side

On the supply side, the nagging points of concerns include the expectation that non-OPEC oil supply, mainly in the Gulf of Mexico and the North Sea are set to fall. According to the International Energy Agency (IEA) in August, non-OPEC oil supplies are forecast to fall 200,000 barrels a day.

Part of the reason for this is that political factors and less attractive investment regimes are hurting the discovery and development of new oil sources in countries such as Mexico and Russia. This puts much more pressure on Middle Eastern oil producers, in particular Saudi Arabia. Yet, there is concern about the true level of Saudi Arabia's oil reserves. Considering that there is a debate over the quality of transparency and disclosure of Saudi reporting, this only adds another factor of market nervousness. Adding to the stew over oil prices, is the nature of global refinery capacity utilization. During the early and mid-1980s, global refinery capacity utilization were around 75 percent; today it has risen to above 95 percent.

D.Statement of the problem

Statement of the problem is impact of rising oil prices on consumer buying behavior (household items) what is the present scenario does all the income level groups are effected by increasing oil prices?

Some of the factors of research are

Study the impact of oil prices on different income level groups i.e.

- Upper class
- Upper-middle class
- Middle class
- Lower class

- What is the impact of rising oil prices on household item prices?

- What is the impact of rising oil prices on consumption of products?

- What is the impact on household budget?

I will conduct hypothesis-testing inorder to find out the relationship between rising oil prices and consumer buying behavior.

H0= there is no relation ship between rising prices of oil and consumer buying behavior
H1= there is a relation ship between rising prices of oil and consumer buying behavior

E.Significance of the study

This research is helpful to study the overall impact of increasing oil prices on consumer buying behavior

The people who are benefited by the research are

- General public
- Policy makers
- Oil companies
- Suppliers
- Wholesalers
- This research is helpful for academic purpose also.

F.Scope

This research is limited to Karachi (Pakistan) the data which has been used in this research ranges from 1998 to 2005 the latest information which I got.

G.Delimitation's

The assumptions and factors which has been considered are descriptive and theoretical in nature if required statistical tool can be applied therefore it is expected that in future if similar conditions will be prevailing the factors will be also remain same if any changes would be taken place for example increase in oil prices will change the household consumption of items may be, prices of goods.

Irrespective of the positive economic indicators prices of essential items in the one year. The prices of items such as oil, gas and wheat flour rose whereas retail prices of commodities such as ghee and cooking oil, rice milk powder, pulses, tea, etc., either stayed unchanged or moved both ways within a narrow band.

Inflation continues to rise and the common man is feeling the pinch more than ever before. Inflation is at an eight-year high, and efforts to bring down the prices of essential commodities are meeting with limited success.

The price of essential items continues to rise and inflation has entered double digits. Power rates as well as transportation costs are also set to rise further, making both goods and services more expensive in the short term.

The common man in Pakistan is facing not only a rise in the price of fuel - be it petrol or gas, but also in the rates at which both goods and services are being sold.

H.DEFINATION OF TERMS

OIL

A slippery or viscous liquid or liquefiable substance not miscible with water

CRUDE OIL

A dark oil consisting mainly of hydrocarbons

GASOLINE

A volatile flammable mixture of hydrocarbons (hexane and heptane and octane etc.) derived from petroleum; used mainly as a fuel in internal-combustion engines

DIESEL

A heavy mineral oil used as fuel in diesel engines

KEROSINE OIL

Flammable hydrocarbon oil used as fuel in lamps and heaters

OGDCL

Oil and Gas Development Company Ltd.

PPL

Pakistan Petroleum ltd

POL

Pakistan Oilfields Ltd.

PSO

Pakistan State Oil

HBOC

High octane blending component

OCAC

Oil companies advisory committee

AMOC

American oil company

Chapter 2

Research Methods and Procedures

A. Research Design

2.1 Types of investigation

2.2 Study setting

2.3 Method

B. Respondents of the Study

C.Instrument

2.1 Primary source

2.2 Secondary source

D. Treatment of Data/Presentation Analysis

A. **<u>RESEARCH DESIGN</u>**

The research design is to study the rising oil prices impact on consumer buying behavior (different income level groups) the research type is basically descriptive as information provided will be flexible and versatile and based on primary and secondary sources

2.1 <u>TYPE OF INVESTIGATION</u>

This research is correctional because in this research the focus will be on the important variable that are associated with the problem

2.2 <u>STUDY SETTING</u>

Study setting is non-contrived i.e. natural envoirment with observation and analysis

2.3 <u>METHOD</u>

Method of conducting research is based on hypothesis, primary and secondary sources

B. **<u>RESPONDENTS OF STUDY</u>**

Respondents of the study would be

- General public,
- Oil companies
- Government organizations

C. **<u>INSTRUMENTS</u>**

- Primary
- Secondary

Primary source

Primary data is collected through questioners from general public and interviews from oil companies

SECONDRY SOURCES

- Gulf economist
- Internet
- Newspapers
- Business recorder

D. Treatment of Data/ Presentation Analysis

Treatment of data is would be

- Data collection
- Analysis of questioners
- Analysis of respondent answers
- Interpretation of respondent answers

PRESENTATION ANALYSIS

Presentation analysis would be

- Graphs

CHAPTER NO 3

Review of Literature and Studies

A.Local literature

B.Foreign literature

C.Gaps to be bridge by the study

D.Areas of further study

A.<u>Local literature</u>

<u>Windfall from price hikes</u>

<u>Article written by Irfan Shahzad, published in *Dawn* of Dec 17,2005</u>

WITH oil prices doubling in a year, oil-producers could not dream of anything better. While countries like Pakistan are suffering a soaring import bill and a higher fiscal deficit, oil producers are looking toward bigger and bigger trade surpluses. But will these enhanced earnings result in higher long-term growth?

Already enduring the unbearable costs of living, hapless people have come under yet another hammer of utilities' price hike after two more upward revisions of POL prices. The hardest hit has been the common men.the common man is facing an unprecedented increase in the prices of oil, power, fertilizers, pesticides and machinery. The latest increase in the price of diesel is all set to ruin the production, as it is the primary source of energy in the farm sector. It is used to fuel tractors, reapers, thrashers and other equipment. The price of diesel has risen by around 100 per cent in the last three years. The recent increase has made, which is enough to break already strained back of the common men. It would certainly add to the higher operating expenses and equipment use costs, particularly of fuel powered machinery. Apart from this, common men depend heavily on the transport sector for the movement of in-puts and agricultural products from farm to market and vice versa. Higher transportation costs would certainly add to his burdens. Whither steps to boost agriculture? Not long ago, the government's decision to impose 17 per cent general sales tax (GST). One wonder why our economic administration has been so blindfolded in following the dictates of Ifs, even in the case of such ruinous decisions. Why they could not argue with the IMF to delay the imposition of GST on this crucial input? Revenue generation is no doubt important, but survival and growth of economy must come first.

Adding to this aggravation, there is ever rising tariff of gas. Higher prices of gas, which is used as a raw material in the industry, force the manufacturers to sell their product at the higher rate. Again the ultimate sufferer is common man. Similar is the situation with all too important products. Their prices have seen a phenomenal raise over the last few years, thanks to various forms of taxes and duties. More ironically, the government is reportedly all set to levy GST on products in the near future. Would this decision not cripple the purchasing power of farmer and ruin the cash crops like cotton and wheat in times to come? The list of common men grievances does not end here. Next in the line are the hardships he faces when he goes to market or government procurement centers to sell his produce. The irregularities involved in procurement by government organizations like the Passco and the TCP are well known. There are complaints by the people that food department employees are playing the role of an agent for the powerful middlemen. The reports reaching from interior Punjab and parts of Singh suggest that farmers be being forced to sell the new wheat crop at rates much lower than the actual support price fixed by the federal government for year 2004-05, i.e. Rs300 per 40 kilogram (maund). The first and foremost is to evolve a realistic and sustainable price adjustment mechanism for oil, gas and power. The prices should be adjusted in the light of their larger impact on country's economy. The fortnightly review of POL prices does not appear convincing. The real problem with this system is that prices of other utilities that go up with the POL prices seldom come down, even if the oil prices are lowered and the common man is left to face the consequences. Equally important is to rationalize the gas tariff so that to check the ever rising prices. Pesticides are essential if we have to increase the quality standards of our crops, particularly cotton, exportable grains, fruits and vegetables. Their prices also demand an effective check.

While Mother Nature continues to play havoc with agriculture in the form of water shortages, prolonged dry spell and drought like situation in different parts of the country; the misguided official policies are not less damaging either. The policies aimed at appeasing the international creditors have caused big blows to the economy.

Foreign literature

Oil Price Hikes Good for Market: Insiders

DAVID LEONHARDT

New York Times ***Posted: Aug. 16, 2005***

The recent hike in prices for domestic oil products is expected to help stabilize the oil market, which has been saddled with a supply crunch for more than one month.On December 6, the National Development and Reform Commission increased the benchmark ex-factory price for gasoline by 200 Yuan (US$24.2) a ton, or 6.6 percent, to 3210 yuan (US$388.1) a ton. Diesel prices rose by 180 yuan (US$21.8) a ton. The benchmark retail prices increased by the same margin. The adjustment is aimed to help the domestic price match international oil price hikes, and encourage whole sellers to release the stock to ease the supply shortfall, experts said. China sets its benchmark prices for oil products in accordance with average rates in the Rotterdam, New York and Singapore markets. Despite the price increase on the international markets, the government has not adjusted domestic prices since July, partly to stabilize the costs to downstream industrial users, and thus, stabilize the economy, experts said. Lower domestic prices have encouraged wholesalers to hold on to their products in the hopes that prices will rise. The speculation, along with the rapid increase in market demand, have forced thousands of filling stations in East, Central and West China to ration the supply of diesel oil since last month. An official with Sinopec, Asia's largest refiner, said the price increase was expected since domestic prices are lagging behind."The price hike, together with many other efforts by oil companies, will ease the market shortage," said the official.Sinopec and PetroChina, the nation's two largest oil companies, have increased refinery runs and crude imports since last month. The companies have also reduced the export of gasoline and diesel oil this month to satisfy domestic demand."The effort seemed to have paid off as the supply in the East China area is recovering," said an industry watcher in Beijing. "The South China market is the next target area for the two companies to step up their efforts to ensure the supply. And the oil market is likely to return to normal by the end of this month,".

Higher oil prices fuel inflation

Falling cost of other goods helps to cushion the blow to consumers

By JAD MOUAWAD

New York Times *Posted: Aug. 16, 2005*

Inflation surged last month, the government reported Tuesday, as the long rise in energy prices finally seemed to be pinching the American economy. After absorbing the burden of oil at $40 a barrel, then at $50 and beyond, consumers have started to react as prices have risen above $60 in recent weeks. Wal-Mart blamed high oil prices on Tuesday as it reported that its profits had risen at their slowest rate in four years in the most recent quarter. The chief executive, Lee Scott, told investors that expensive oil was worrying him because it seemed to be erasing recent income gains for many customers.

Airlines have already felt the sting of increasing jet fuel costs. Last week, Delta airlines, UAL's United Airlines and Continental Airlines raised domestic fares in their latest attempt to stem losses. Delta is struggling to avoid bankruptcy. UPS recently reminded its drivers not to leave their truck engines running when they deliver packages. Nearly the entire jump in inflation last month came from energy. Overall prices rose 0.5% in July - and 3.2% over the last year - after having been flat in June.Across the country, families are trying to figure out where to cut corners so they can afford gas that now averages $2.55 a gallon nationwide after posting the biggest weekly jump in at least 15 years, according to the latest government statistics."We spend much less," said Hollie Tubbs, a 32-year-old teacher's assistant in Brooklyn. Instead of going to the movies, watching plays or dining out, she now takes walks in the park with her husband and son and checks the newspaper to see when a nearby Barnes & Noble will be holding a free story hour. "Everything is related to gas prices. The more you drive, the more you spend. In order to bring the budget down, we stopped driving."

Higher heating oil costs

If consumers are feeling hard-pressed by higher gasoline prices, matters could become worse this winter when their heating oil bill arrives. Some commodity analysts say that that is when the full impact of the higher energy costs will be felt.

Forecasters still expect economic growth to remain healthy for the rest of the year, as companies invest in new factories and the housing boom continues. But the high cost of oil already appears to be curbing growth, translating into unusually modest gains in employment and pay. If history is any guide, higher prices will hurt consumption, curb the nation's output and shift spending patterns. The risks of a domino effect on the economy are real, economists say."We can't lose sight of the fact that energy restricts growth," said Anthony Chan, a senior economist at J.P. Morgan Asset Management. "It is doing So.'s far, the economy has showed much more resilience to higher energy costs than most analysts had anticipated. Although prices began rising in early 2002, consumers have kept shopping, companies have expanded and inflation has remained under control. At times, it seemed the country had entered a new economic era. Without question, economists say, rising oil prices cause less economic pain than they once did. It takes half as much energy to produce $1 of gross domestic product today, adjusted for inflation, than it did 30 years ago. Even at today's prices, oil remains cheaper today than it did in the early 1980s, once adjusted for inflation. The falling cost of other goods, thanks in large part to global competition, has also helped cushion the blow from higher energy costs. While energy prices rose 3.8% between June and July, the price of all other goods inched up only 0.2%, the Labor Department said Tuesday."There seems to be a greater tolerance in the economy in terms of what can be withstood," said Doug Leggate, an energy analyst with Citigroup in New York.

Full impact felt sooner

But a spike in oil prices still hurts, economists say, even if the pain does not come immediately. In the past, its full effect has not come until a year, or even two years, after prices began rising. Both of the last two recessions - in 1990-'91 and in 2001 - began more than a year after energy prices started a sharp climb."It is way too soon to be sanguine," said Andrew J. Oswald, an economist at the University of Warwick in England, who has written about oil. "The influence of a petroleum shock runs deep and runs slow. My own view is that we will find oil shocks still hurt, and hurt fundamentally."

It was only 13 months ago that the price of a barrel of crude settled above $40. Oil, which closed Tuesday at $66.08 a barrel on the New York Mercantile Exchange, is not likely to become much cheaper anytime soon, analysts say. Nor are natural gas prices, which have gained 73% this year.
This means that winter heating bills for American households are set to soar.

"Higher gasoline prices and heating oil bills are like consumption taxes," said Bob Gillon, a senior analyst with John S. Herold Inc. "They will be a hardship on many. People will cut back on some purchases."The blow has been softened in recent years by falling long-term interest rates, which have allowed homeowners to refinance their mortgages and cut their monthly payments, and by rising house values.

D. Gaps to be bridge by the study

This research will help government agencies and oil price setting companies in better understanding the perception and problem faced by the common man so that they will come up with new strategies and improvement in oil prices this research will also help in understanding the impact of oil prices on consumer buying behavior.

E. Areas of further study

Consumer buying behavior is much influenced by the oil prices therefore government has to focus on increasing oil prices.

CHAPTER NO 4

PRESENTATION ANALYSIS

A.Introduction

B.Respondent Profile

C.Analysis of Questionnaires

5.1Lower income

5.2Midlle income level

5.3Upper middle income level

5.4Upper income level

A.Introduction

Here researcher has presented the impact of increasing oil prices on consumer buying behaviour.through questionnaires researcher has find how much each level of income is effected by increasing oil prices how much their their monthly expenditure is effected and how much they control they control their monthly expenditure on goods.

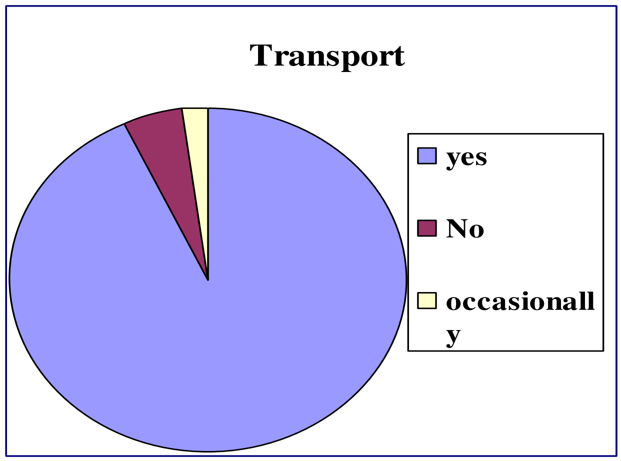
B.RESPONDENT PROFILE

INCOME LEVEL	GENDER		MARITAL STATUS	
Rs	MALE	FEMALE	MARRIED	SINGLE
0-10,000	18	7	21	4
11,000-30,000	17	3	15	5
31,000-50,000	20	0	20	0
More then 51000	20	0	20	0
Total	85		85	

5.1 ANALYSIS OF INCOME LEVEL 0-10,000(LOWER INCOME LEVEL)

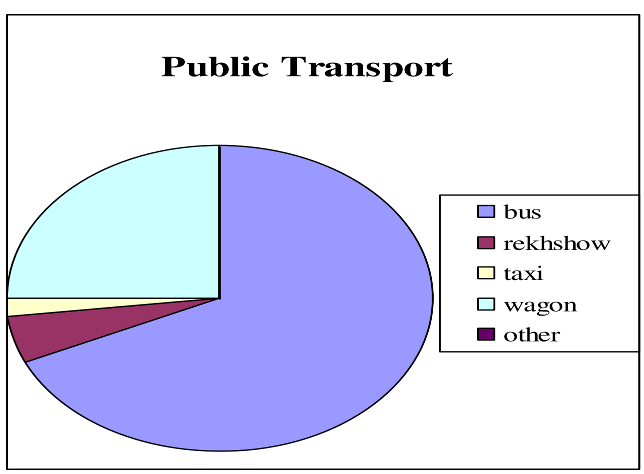
1. Do you use public transport

- **Yes**
- **No**
- **Occasionally**



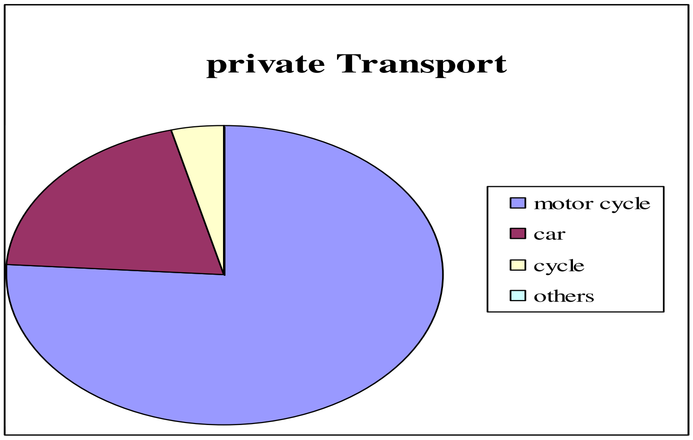
2.If yes: Mode of public transport

- **Bus**
- **Rekhshaw**
- **Taxi**
- **Wagon**
- **Other**



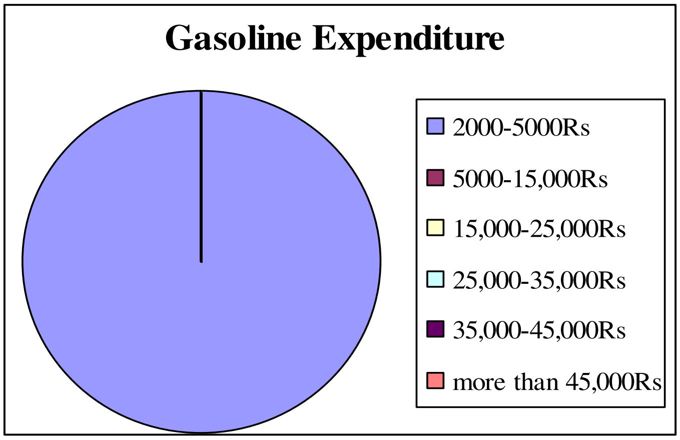
3.Which of the private transport you use

- **Car**
- **Motor cycle**
- **Cycle**
- **Other**



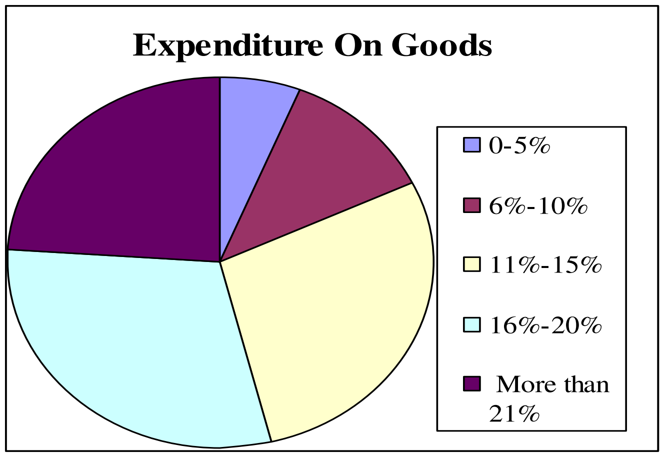
4.Your monthly gasoline expenditure

- **2000-5000Rs**
- **6000-15,000Rs**
- **16,000-25,000Rs**
- **26,000-35,000Rs**
- **36,000-45,000Rs**



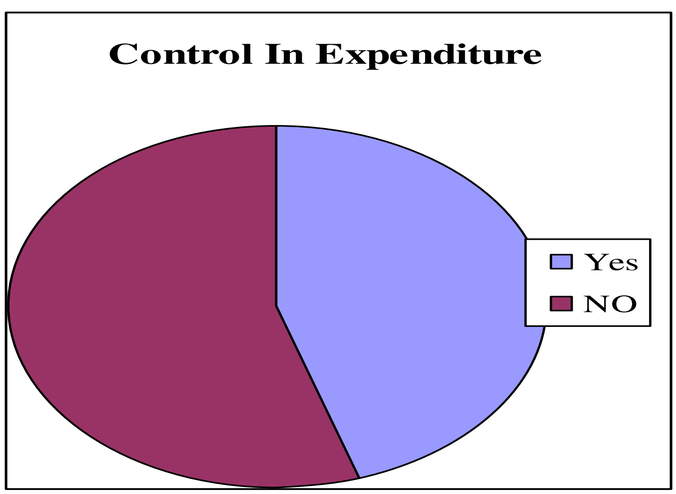
5.Increase in fuel prices affects your expenditure on goods by percentage

- **0-5%**
- **6%-10%**
- **11%-15%**
- **16%-20%**
- **More than 21%**



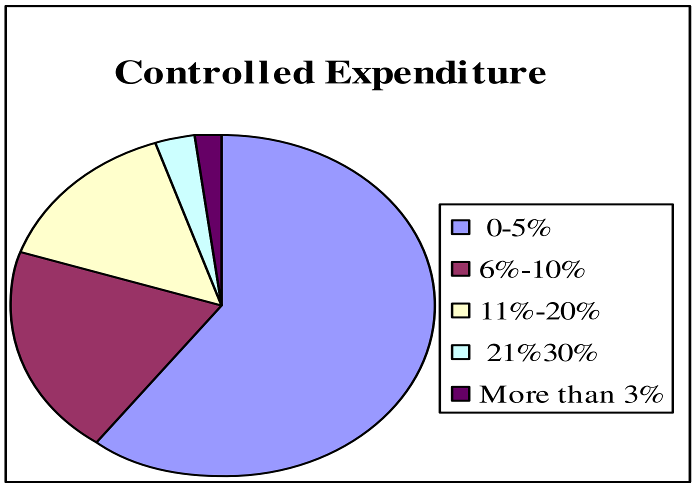
6.Do you control your monthly expenditure on goods because of the increase in fuel prices?

- **Yes**
- **No**



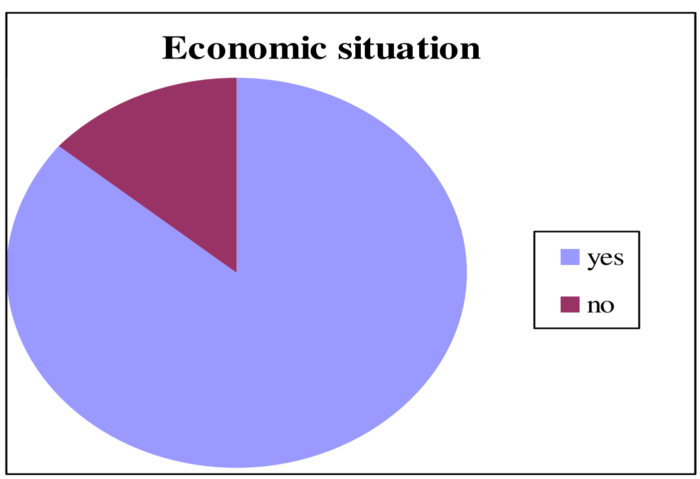
7.If yes: then by percentage

- **0-5%**
- **6-10%**
- **11%-20%**
- **21%30%**
- **More than 31%**



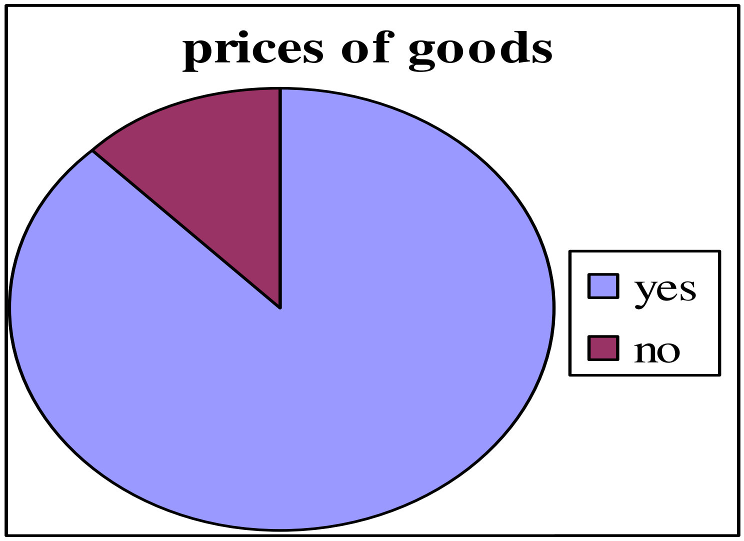
8.Do you think increase in fuel prices have affected economic situation of the country?

- **Yes**
- **No**



15.Do you think prices of consumer goods increases due to the increase in fuel prices?

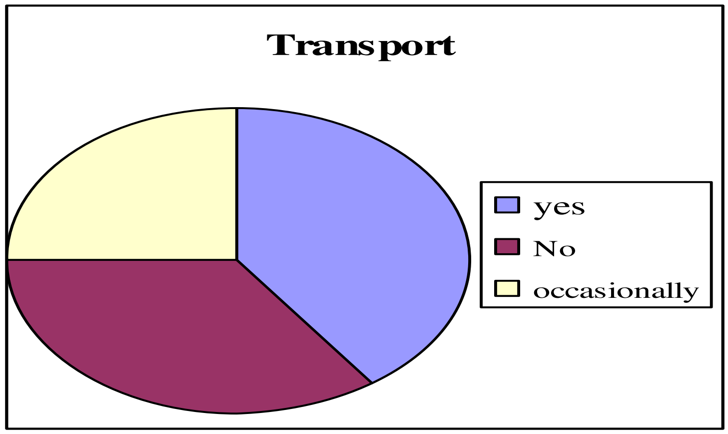
- **Yes**
- **No**



5.2ANALYSIS OF INCOME LEVEL 11,000-30,000(MIDDLE INCOME LEVEL)

1.Do you use public transport

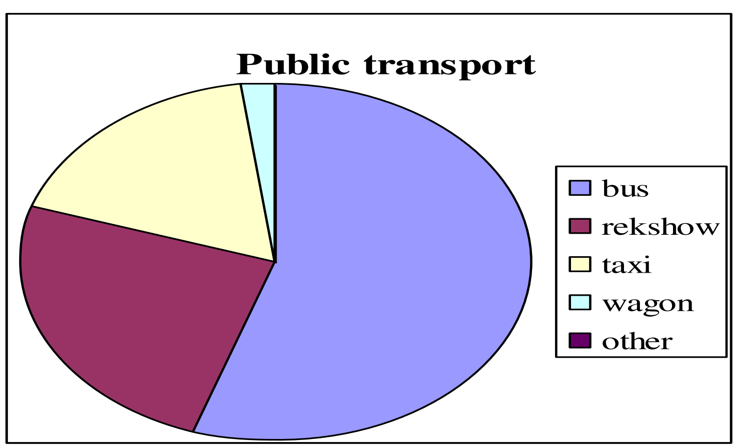
- **Yes**
- **No**
- **Occasionally**



2.If yes:

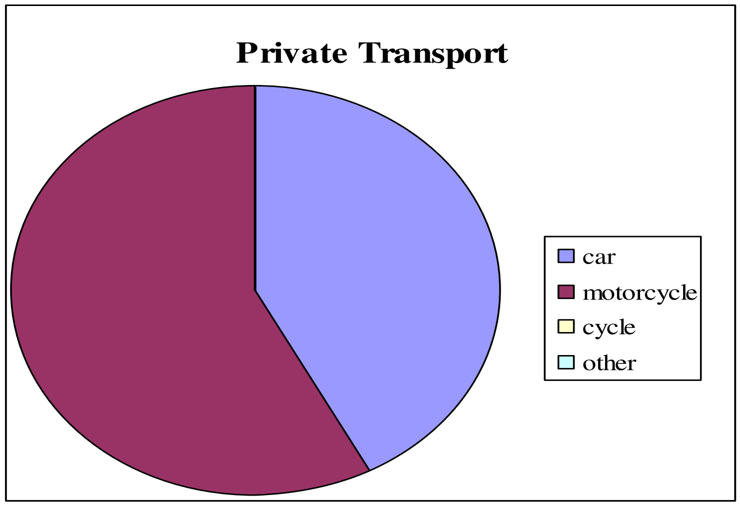
Mode of public transport

- **Bus**
- **Rekhshaw**
- **Taxi**
- **Wagon**
- **Other**



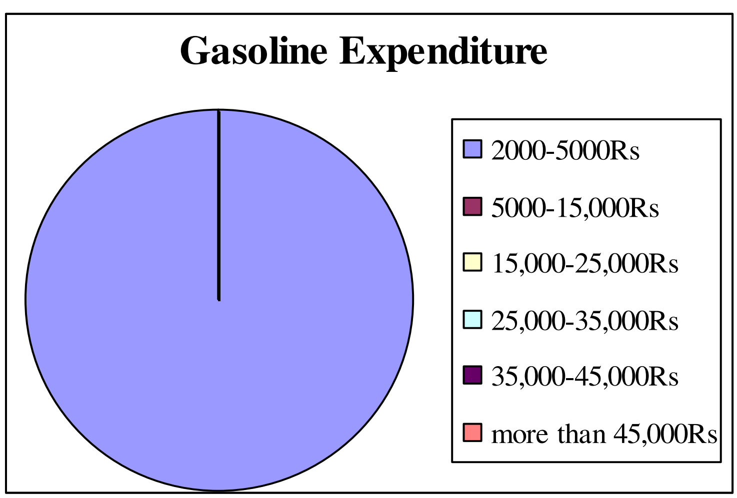
4.Which of the private transport you use

- **Car**
- **Motor cycle**
- **Cycle**
- **Other**



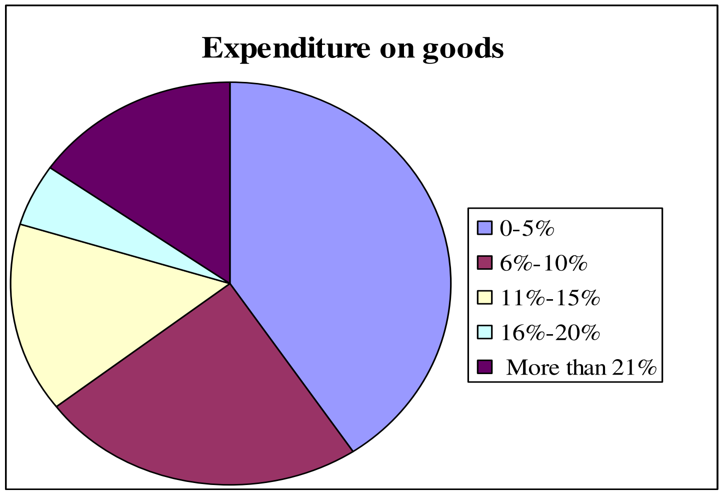
5.Your monthly gasoline expenditure

- **2000-5000Rs**
- **6000-15,000Rs**
- **16,000-25,000Rs**
- **26,000-35,000Rs**
- **36,000-45,000Rs**



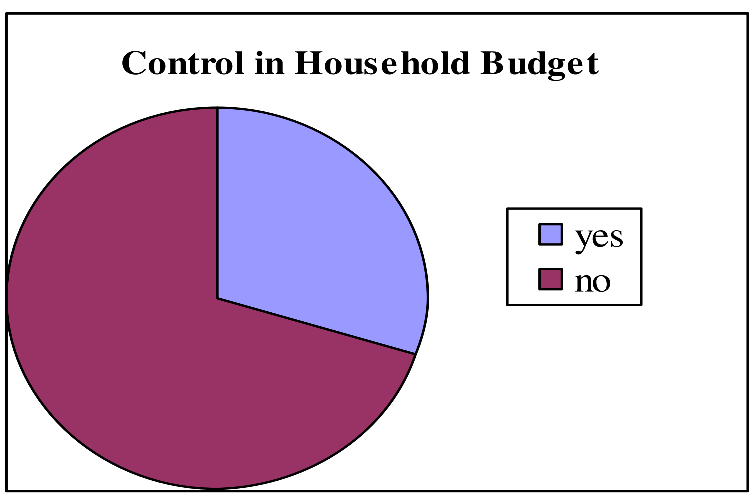
6.Increase in fuel prices affects your expenditure on goods by percentage

- **0-5%**
- **6%-10%**
- **11%-15%**
- **16%20%**
- **More than 21%**



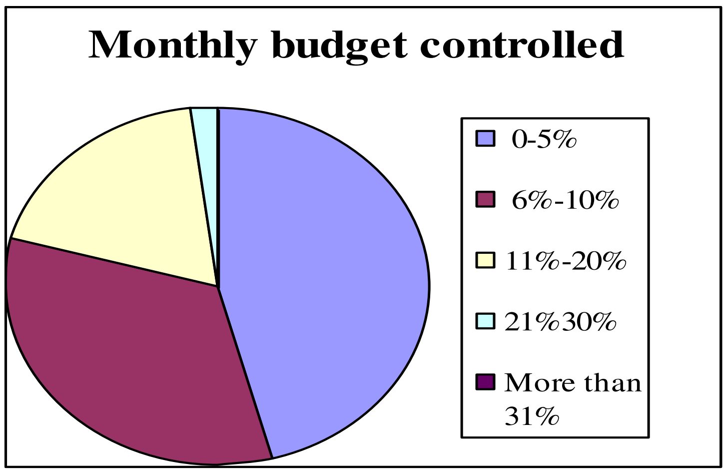
7.Do you control your monthly expenditure on goods because of the increase in fuel prices?

- **Yes**
- **NO**



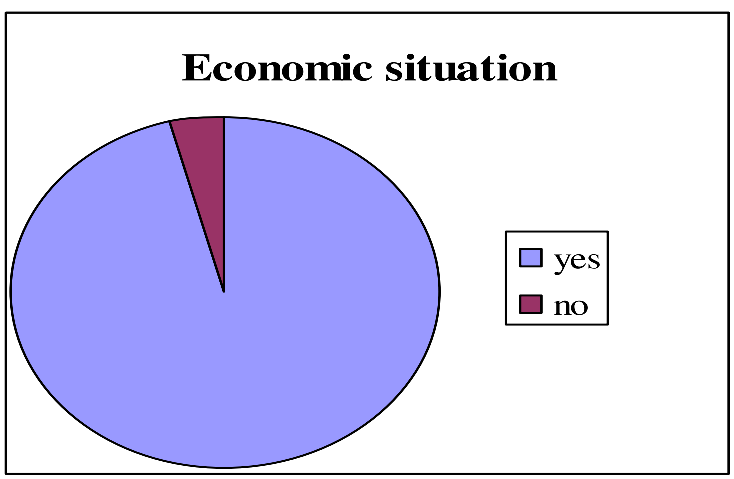
8.If yes: then by percentage

- **0-5%**
- **6%-10%**
- **11%-20%**
- **20%30%**
- **More than 31%**



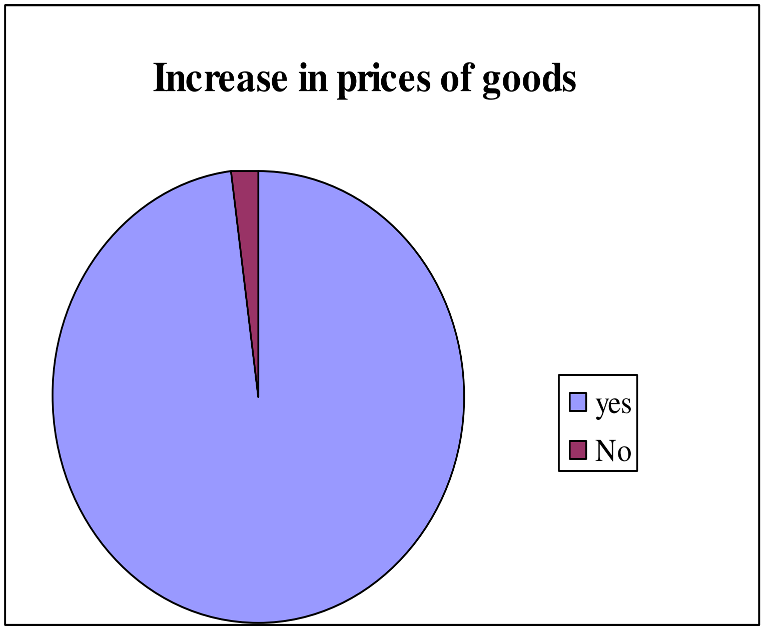
9.Do you think increase in fuel prices have affected economic situation of the country?

- **Yes**
- **No**



10.Do you think prices of consumer goods increases due to the increase in fuel prices?

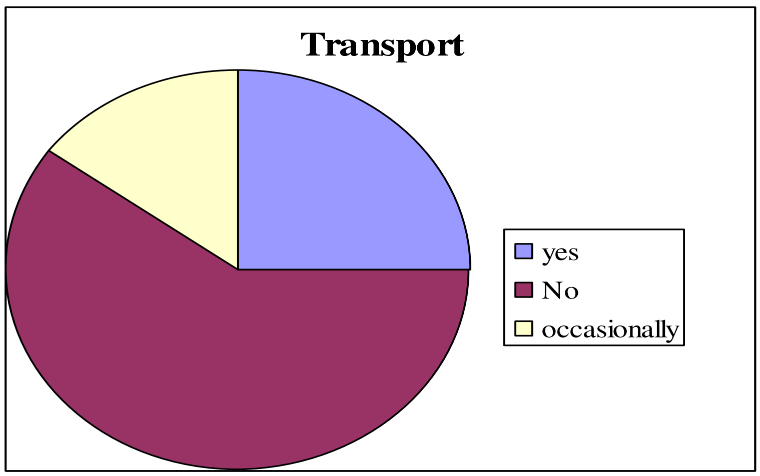
- **Yes**
- **No**



5.3Analysis of the questionnaire of upper middle level (Income 31000-50000)

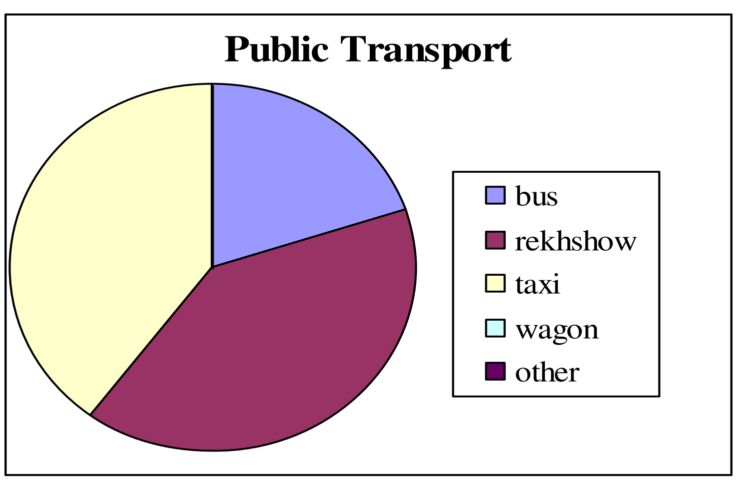
1.Do you use public transport

- **Yes**
- **No**
- **Occasionally**



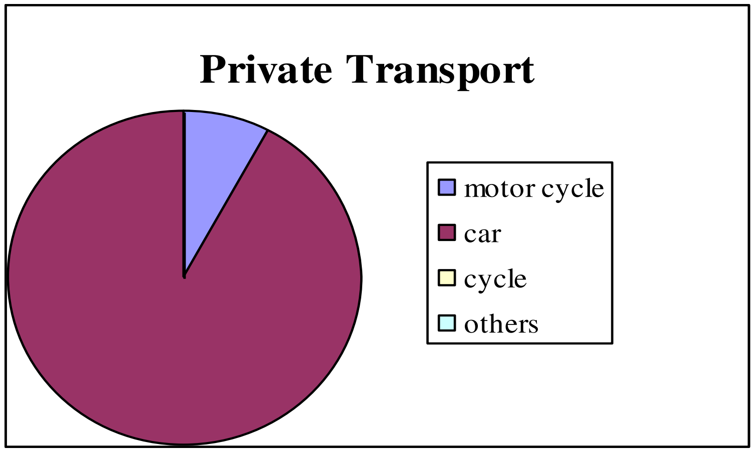
2.If yes: Mode of public transport

- **Bus**
- **Rekhshaw**
- **Taxi**
- **Wagon**
- **Other**



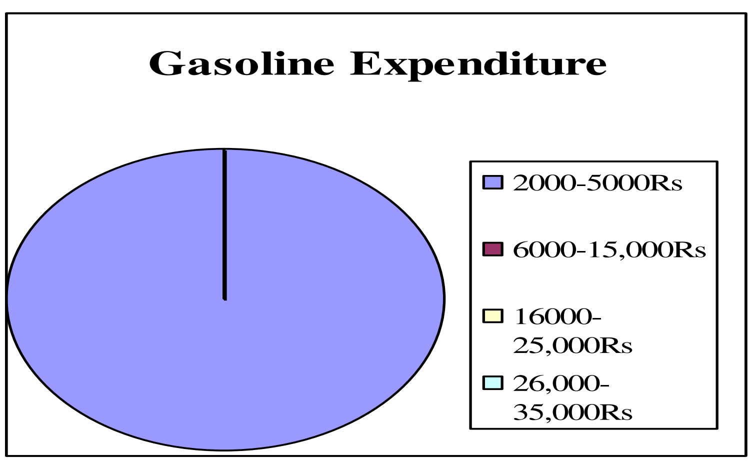
3.Which of the private transport you use

- **Car**
- **Motor cycle**
- **Cycle**
- **Other**



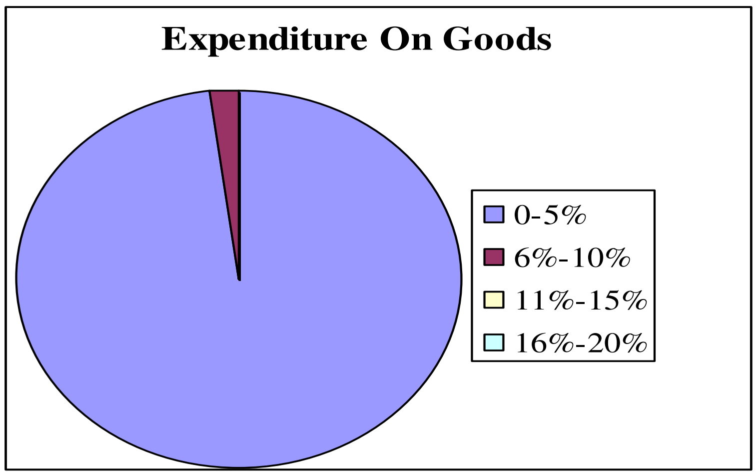
4.Your monthly gasoline expenditure

- **2000-5000Rs**
- **6000-15,000Rs**
- **16,000-25,000Rs**
- **26,000-35,000Rs**
- **36,000-45,000Rs**

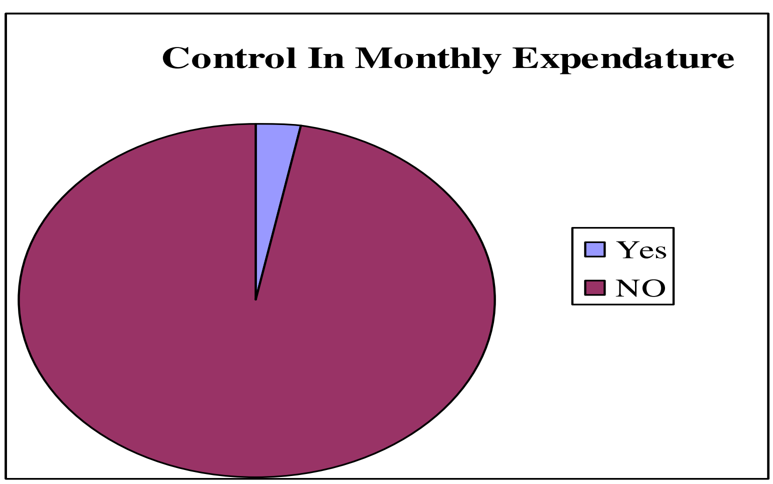


5.Increase in fuel prices affects your expenditure on goods by percentage

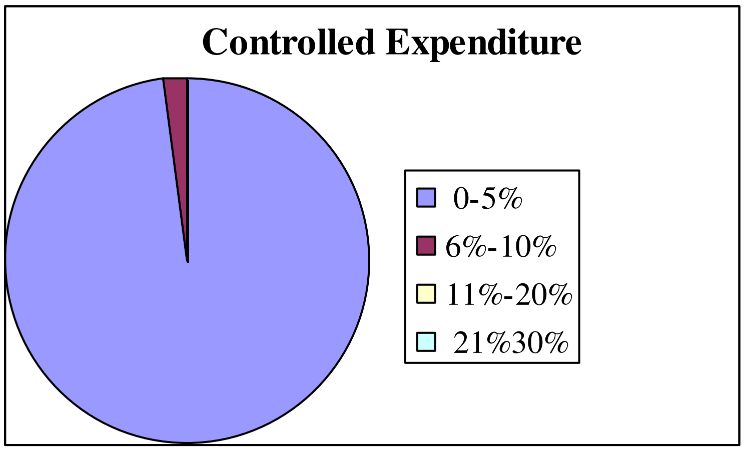
- **0-5%**
- **6%-10%**
- **11%-15%**
- **18%20%**
- **More than 21%**



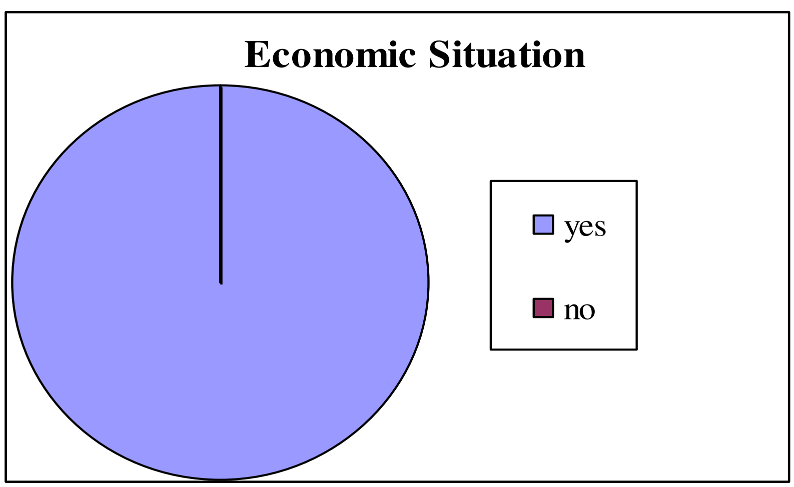
- **Do you control your monthly expenditure on goods because of the increase in fuel prices?**
- **Yes**
- **No**



- **If yes:then by percentage**
- **0-5%**
- **6%-10%**
- **11%-20%**
- **21%30%**
- **More than 31%**

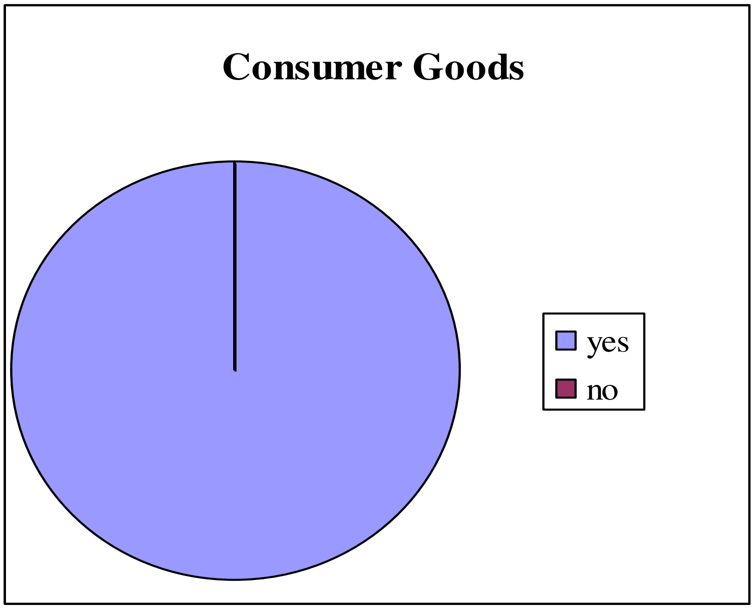


- **Do you think increase in fuel prices have affected economic situation of the country?**
- **Yes**
- **No**



8.Do you think prices of consumer goods increases due to the increase in fuel prices?

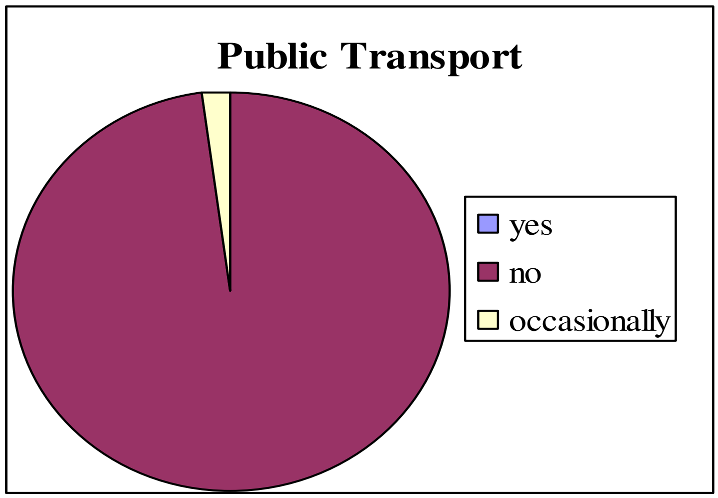
- **Yes**
- **No**



5.4 <u>Analysis of Income level more then 51,000 (upper level of income)</u>

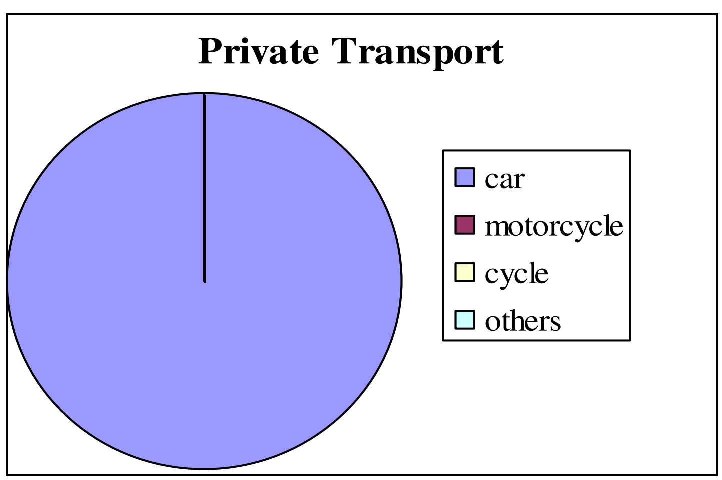
1.Do you use public transport

- **Yes**
- **No**
- **Occasionally**



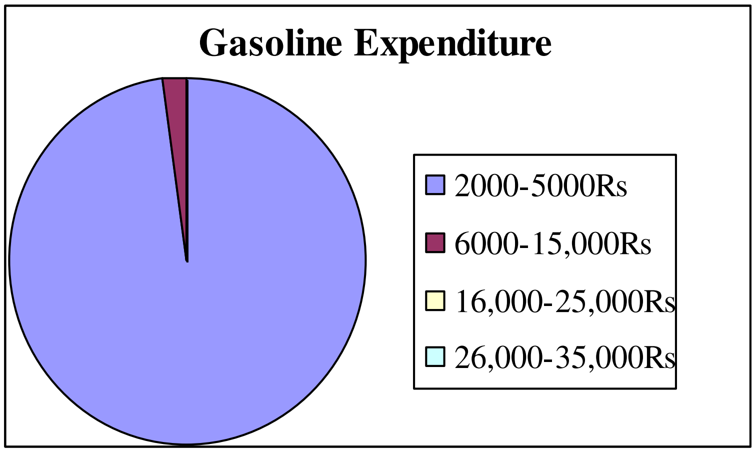
2.Which of the private transport you use

- **Car**
- **Motor cycle**
- **Cycle**
- **Other**



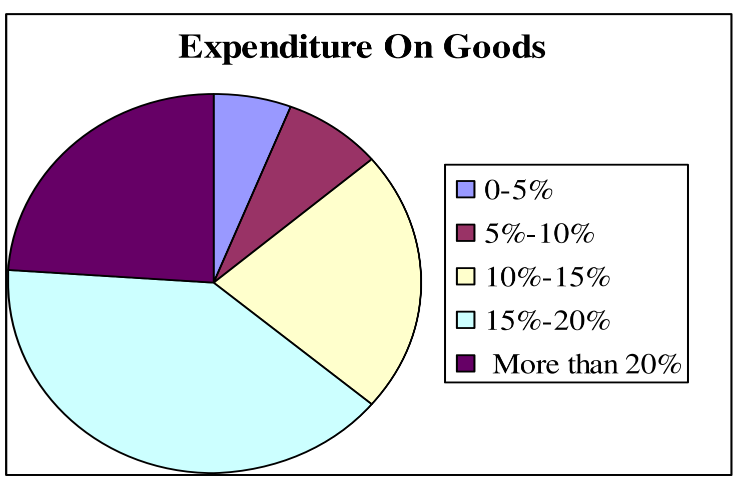
3.Your monthly gasoline expenditure

- **2000-5000Rs**
- **6000-15,000Rs**
- **16,000-25,000Rs**
- **26,000-35,000Rs**
- **36,000-45,000Rs**



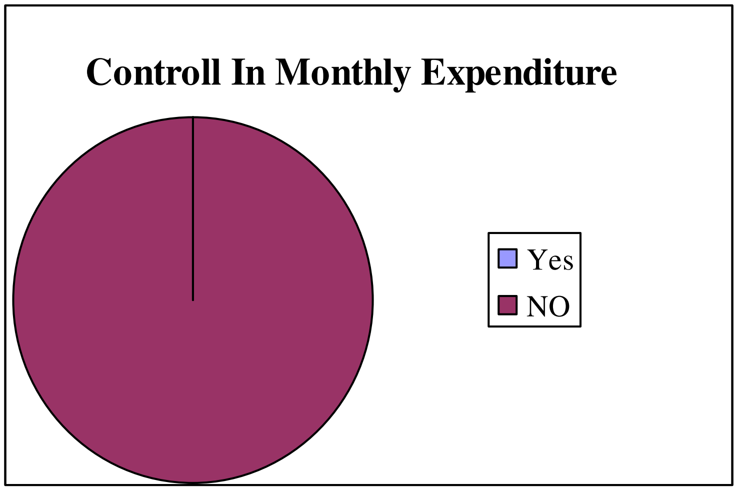
4.Increase in fuel prices affects your expenditure on goods by percentage

- **0-5%**
- **6%-10%**
- **11%-15%**
- **16%20%**
- **More than 21%**



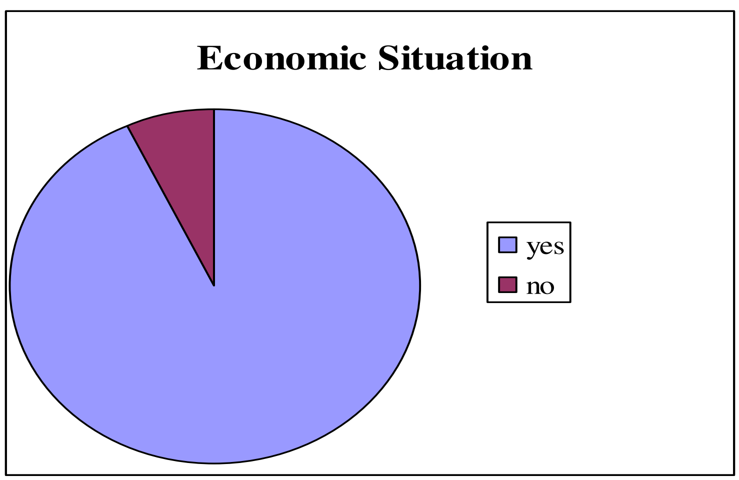
5.Do you control your monthly expenditure on goods because of the increase in fuel prices?

- **Yes**
- **No**



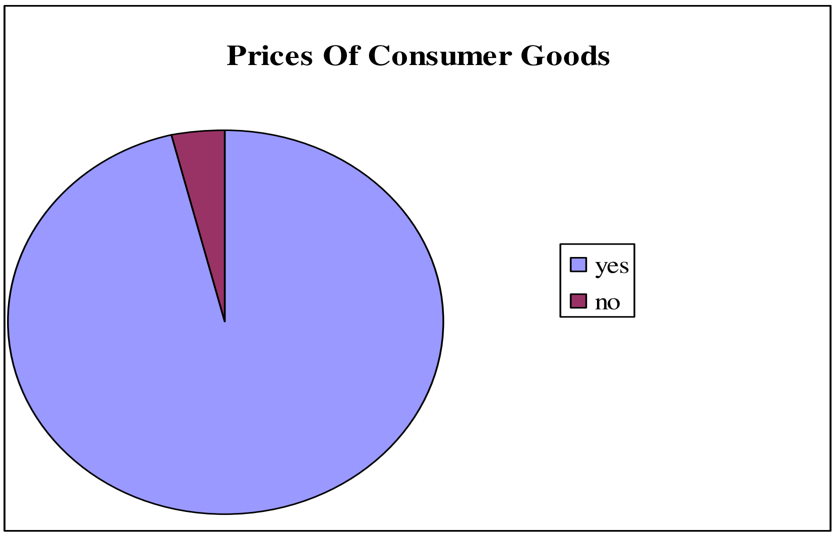
5. Do you think increase in fuel prices have affected economic situation of the country?

- **Yes**
- **No**



7.Do you think prices of consumer goods increases due to the increase in fuel prices?

- **Yes**
- **No**



CHAPTER NO 5

CLOSING UP

A. Summary of findings

B. Hypothesis

C. Conclusion

D. Recommendations

A.Summary of the Findings

After data analysis it is found that there is a significant impact of rising oil prices on consumer buying behavior and all the income levels effects due to the increasing oil prices. Due to the increase in oil prices, prices of household items are increasing day by day Consumption of goods at lower level of income is more effected then at middle
Or upper level. After analysis of the four levels of income it is found that:

- People which have income less then 10,000Rs are so much effected by rising fuel prices.at this level 93% people travel through public transport mostly, while 5% are those who didn't use public transport and 2%people occasionally use public transport.76%people use motor cycle as their mode of transport, 20%have cars and 4%are using cycle.at this level of income people expenditure lies between 2000-5000Rs and increase in fuel prices effects their consumption on goods by15-20%. They shrinks their budget because they have to manage in the small income at this level mostly people control their monthly expenditure due to the increasing fuel prices. At this level.most of the people said that economic situation is badly effected due to The increasing fuel prices lower class people have to suffer a lot.the main factor which Brings increase in oil price is transportation which have a ultimate impact on Increasing prices of everything.

- According to the findings people which have income between 11,000-30,000Rs which is the middle level of income are also much effected but not as people who have income below 10,000Rs.at this 40%people uses public transport while 35%have cars and 25%occasionally travel through public transport.people who uses public transport mostly they use bus after that at this level people use rekhshow and taxi. 55% people uses motorcycle 45% people have cars.their gasoline expenditure lies between 2000-5000Rs.increasing fuel prices effected their expenditure on goods by 0-5%. 30% people control their monthly expenditure while 70%people donot control their monthly expenditure.at this income level mostly people said that increase fuel prices effected the economic situation in a manner that economy is growing but middle man is not getting the benefit of it.prices of consumer goods are increasing goods increasing day by day this ultimately raise cost of living.the main factor which brings increase in oil prices are market conditions which causes increment in fuel prices.

- Upper middle level of income i.e. 31,000-50000Rs is not so much effected by the increasing fuel prices, at this of income 60%people donot use public transport while25%uses public transport and 15%uses it occasionally.people who uses public transport most of them uses reskshow and taxi for travel.92% people uses car while 8% people travel through motorcycle their monthly expenditure lies between 2000-5000Rs increase in fuel prices effects their expenditure on goods by 0-5% and 98%people donot control their monthly expenditure while 2% people control their expenditure on goods,100%thinks that increase in fuel prices effected the economic situation of the country in a manner that transportation cost increases for everything which is paid by every buyer in the same income purchases are reduced. The main factor, which brings increase in oil prices, is the increase in international oil Prices.

- Upper level of income i.e. above 51,000Rs is not affected according to the findings. People at this level of income all the people have cars 2% people occasionally travel Through publictransort.98% people gasoline expenditure lies between2000-5000Rs While 2% people are those who have gasoline expenditure lies between 6000-10000Rs.increasing fuel prices effects their expenditure on goods by 0-5%. They donot control their consumption on goods. According to their point of view Increasing fuel prices effected the economic situation because fuel is the ultimate Source of transportation. at this level 96%people thinks that prices of consumer Good increasing due to the increase in fuel prices.at this mostly people said that it is Source of collecting revenue that's why they increase the fuel prices and the other Factor is increase in international fuel prices.

B. Hypothesis

Hypothesis-testing in order to find out the relationship between rising oil prices and consumer buying behavior

- **Null hypothesis**

  H0= there is no relation ship between rising prices of oil and consumer buying behavior.

- **Alternative hypothesis**

  H1= there is a relation ship between rising prices of oil and consumer buying behavior.

Calculations

Significance level =0.05

Standard deviation =36.80

X =85

N= 4

Uo = 21.25

Critical value of z = .125

Calculated value = 1.73

It is found that critical value $\boxed{.125}$ is less then calculated value $\boxed{1.73}$ so null hypothesis is rejected '

H0 is rejected

There is no relation ship between rising prices of oil and consumer buying behavior

Alternative hypothesis is accepted

There is a relation ship between rising prices of oil and consumer buying behavior.

C. Conclusion

It is concluded that consumer buying behavior is much influenced by the increasing oil prices. Higher oil prices work like an added tax have the effect of holding down hiring, consumer spending and corporate profits.

The first and most hits are the poor class of the country, which constitutes majority of the population. Forty percent of the people in the country are still living below the poverty line, which means they can hardly get a one-time meal a day. Higher oil prices mean higher food prices, higher transportation cost and higher utility bills.after lower class middle class is suffering due to the increasing oil prices.upper middle and upper class income level people are not so much effected by the increasing oil prices.

Fuel prices affects cost of production in a variety of ways as with the increase in its prices, cost of transportation of import, export and goods for local consumption goes up. Besides air, rail, road and sea transportation rates rise with the escalation in the price of petroleum.

The sharp upturn in inflationary trend is caused by demand pressures on the one hand and supplies shocks on the other. Successive increases in The price of food items registered sharp increases a surge in international oil prices coupled with an rise in world prices of commodities have combined to spark inflationary pressure. Economy is badly effected, most importantly its adverse and disproportionate effect on the poor and vulnerable segments of society as well as its deleterious effect on purchasing power of the fixed-income group, Food prices are on the rise at a time when the rate of inflation in the country is hovering around double digits. More important, it is the prices of the most essential food items that have come under severe pressure in recent months. Items such as atta, sugar, beef, potato and garlic have gone out of reach of even those placed well above the poverty line

Growing transportation requirements combined with declining domestic oil production have led to increasing oil imports. Rising oil prices are having an adverse impact on the Pakistan economy.

Neither the demand nor the supply of oil responds very much to price changes the recent unexpected rise in oil consumption together with disruptions to supply can account for much of the increase in prices.

The higher oil prices slow economic growth, they also create inflationary pressures. Higher prices for crude are passed through, with only a very short lag, to increased prices for oil products used by consumers, such as gasoline and heating oil.

D.Recommandations

- Expansion in the production of oil.
- Enhancement of exploration activities of oil.
- Steps to increase the supply of domestic transportation fuels seriously required.
- Alternatives to oil likely are required.
- More research work required for increasing the production of oil.
- Expansion in crude oil storage capacity.
- Prices of fuels should be reduced and the reduction in oil prices should be linked with the procedure that makes it possible that the benefit has been passed on to the consumers.
- A comprehensive national energy policy that would address both conservation (reducing demand) and increasing the supply of crude oil and refined products.
- Strong infrastructure should be made for petroleum industry
- Government agencies should monitor the situation closely and adjust the prices accordingly for the benefit of consumers.