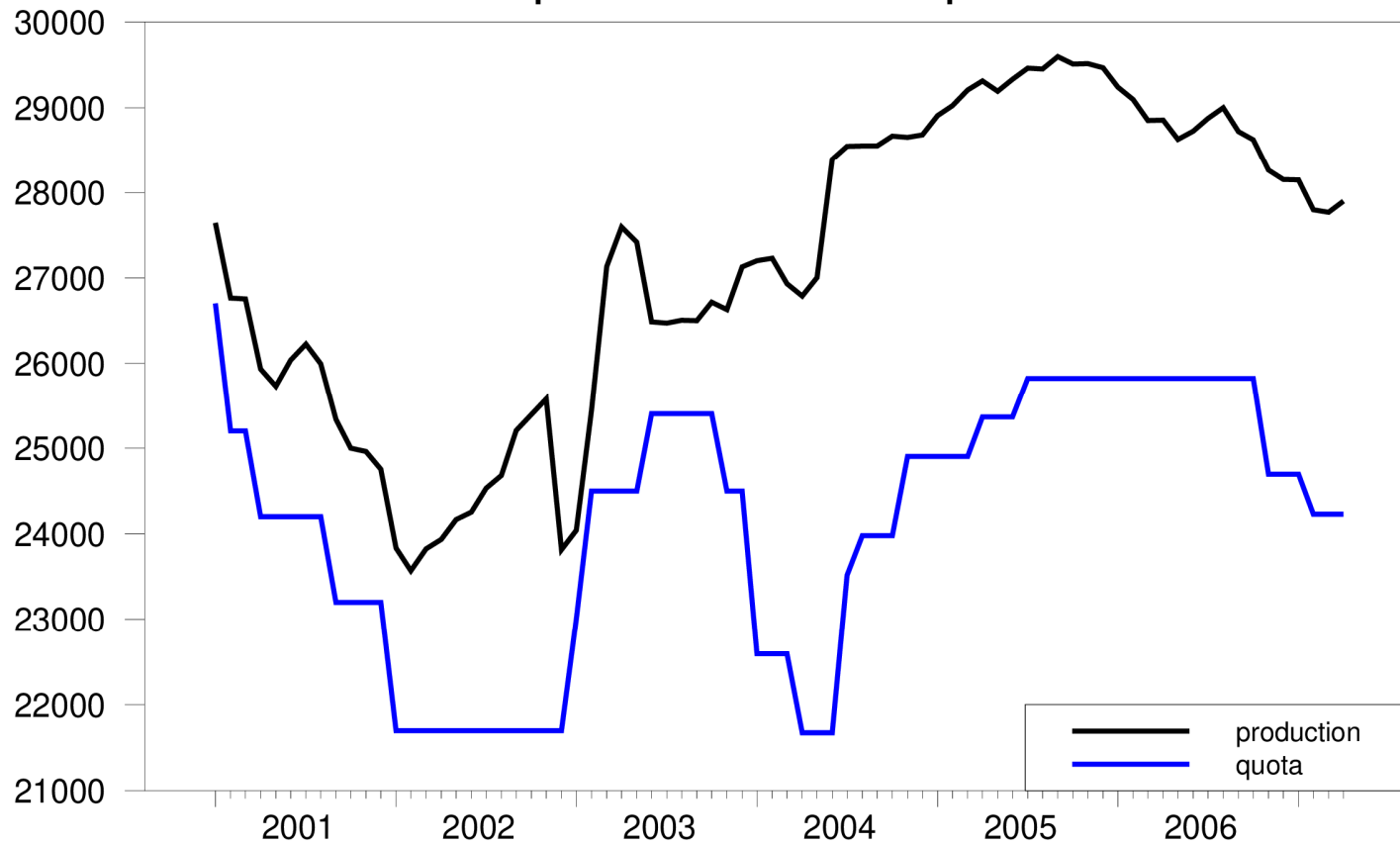# The macroeconomic effects of oil supply news: Evidence from OPEC announcements
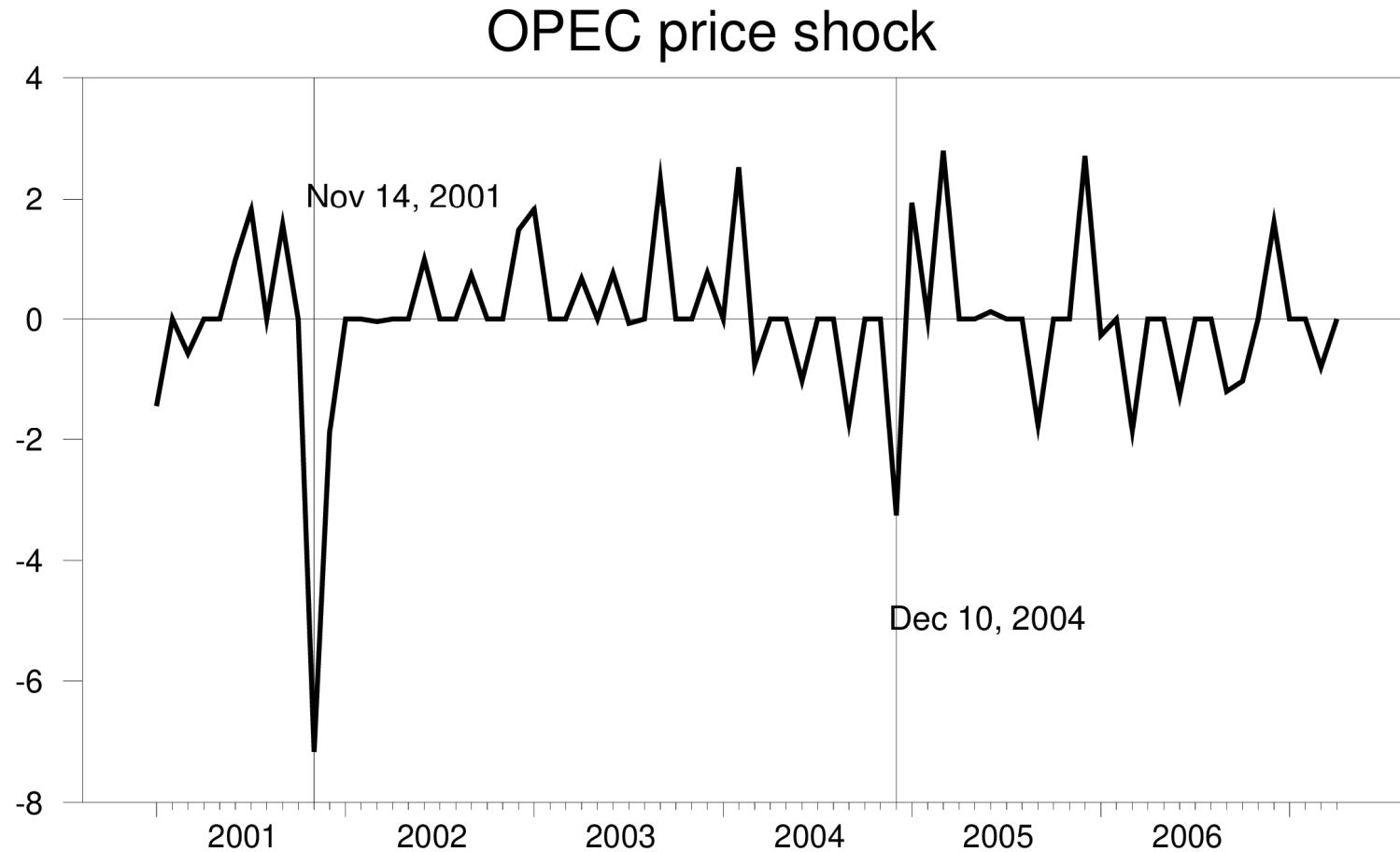
Discussion by James D. Hamilton

OPEC production targets are just loose guidelines
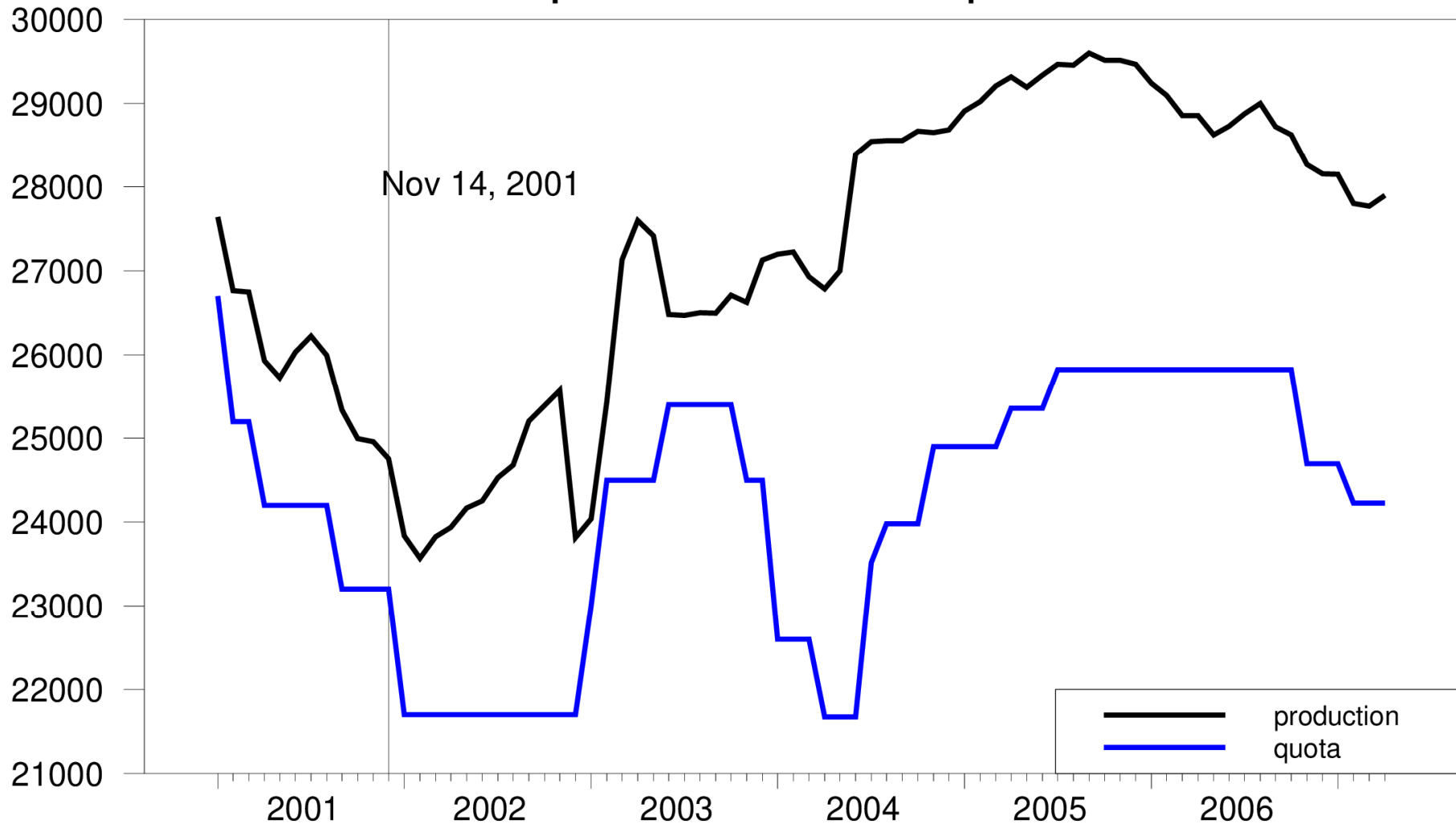

OPEC production and quota

Kanzig's oil price surprises (Jan 2001 – Apr 2007)

OPEC price shock
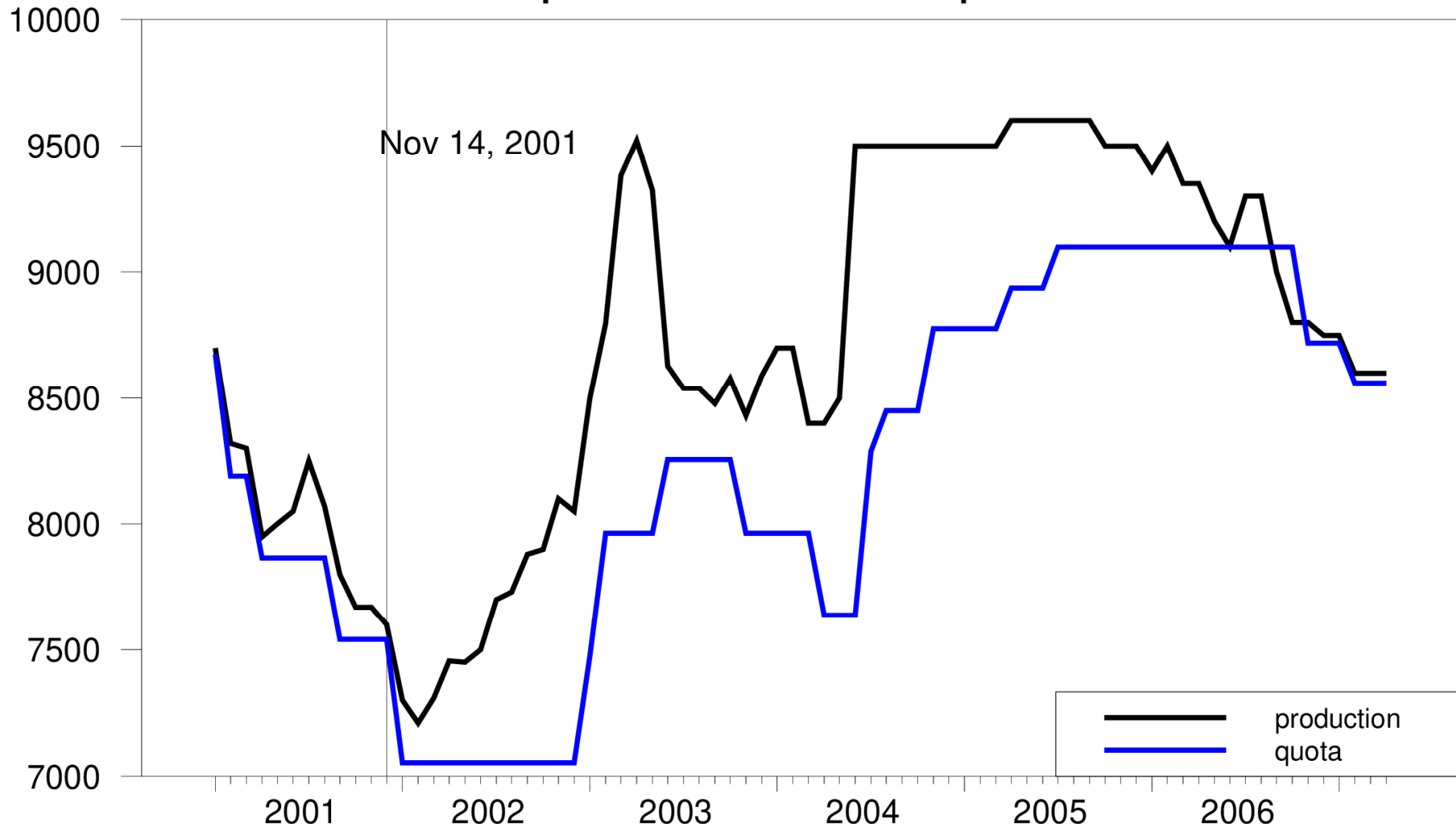
Nov 14, 2001

Dec 10, 2004

Nov 14, 2001

- OPEC Bulletin, Nov 2001:
    - "at its 118th Conference in Vienna in November, OPEC chose a course of action that it had never before decided upon: to attach conditionality to its decision to cut output. The Organization agreed to reduce production by another 1.5m b/d, but only on the condition that non-OPEC nations also contributed 500,000 b/d of cuts."
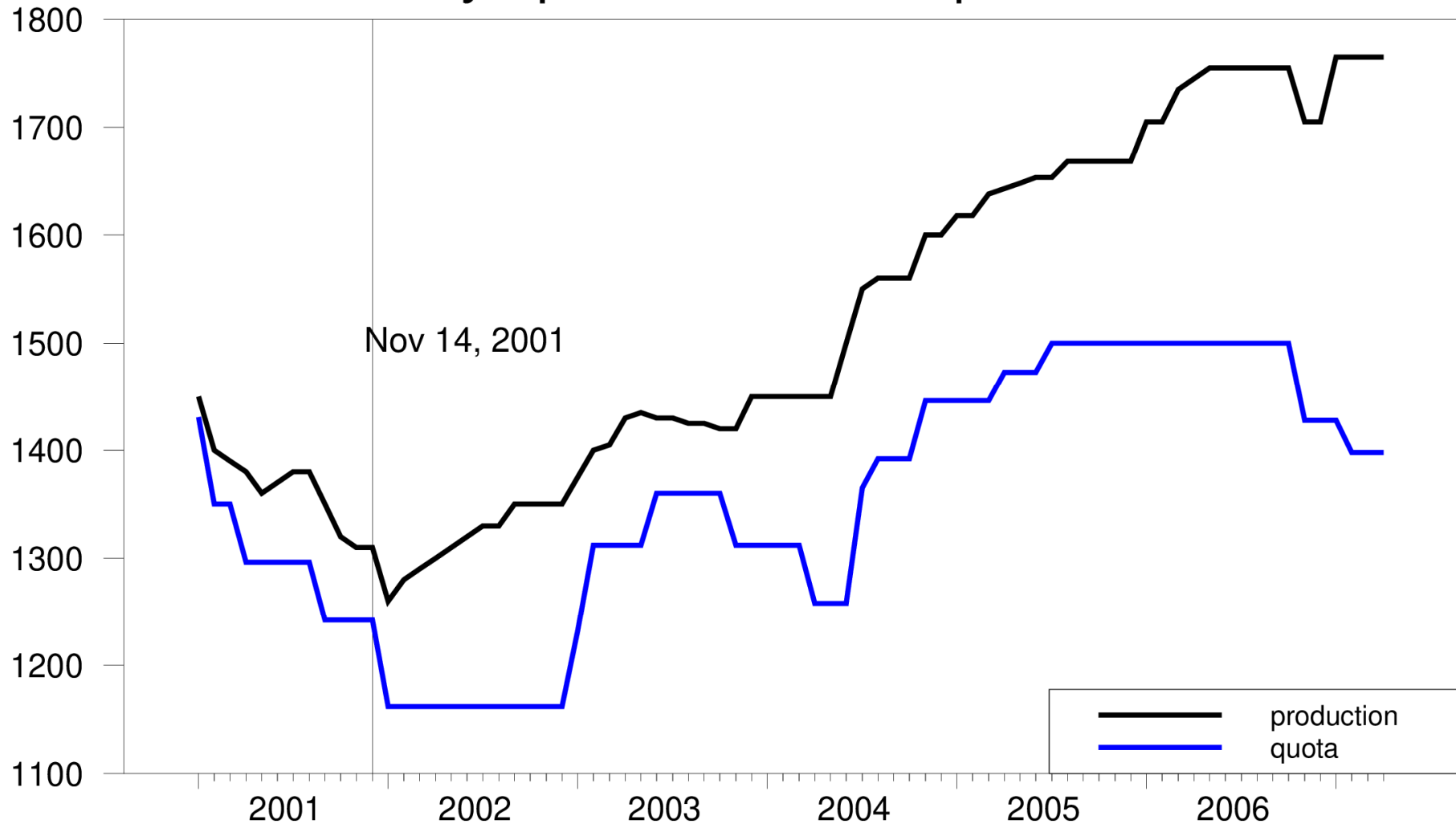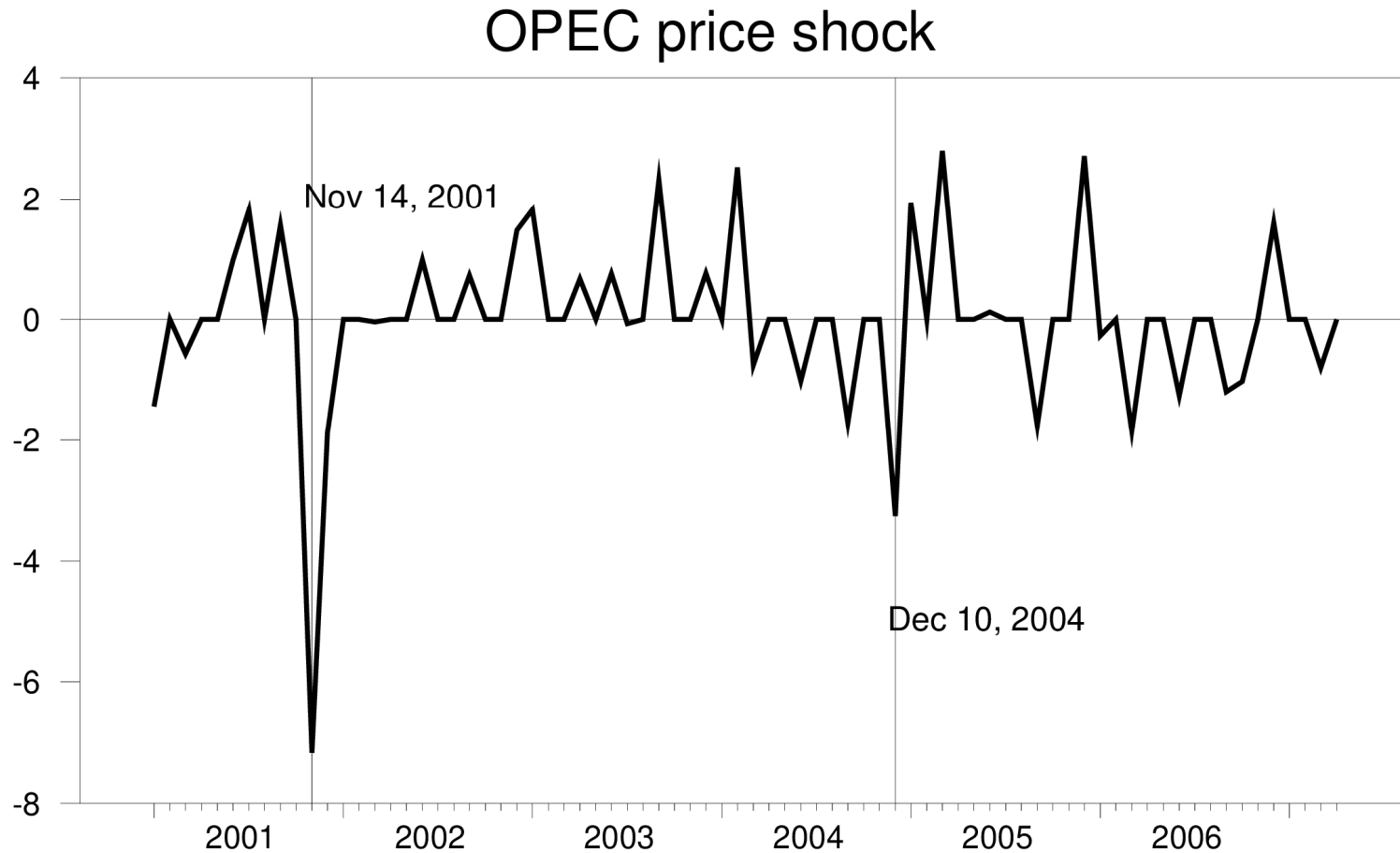
OPEC production and quota

Nov 14, 2001

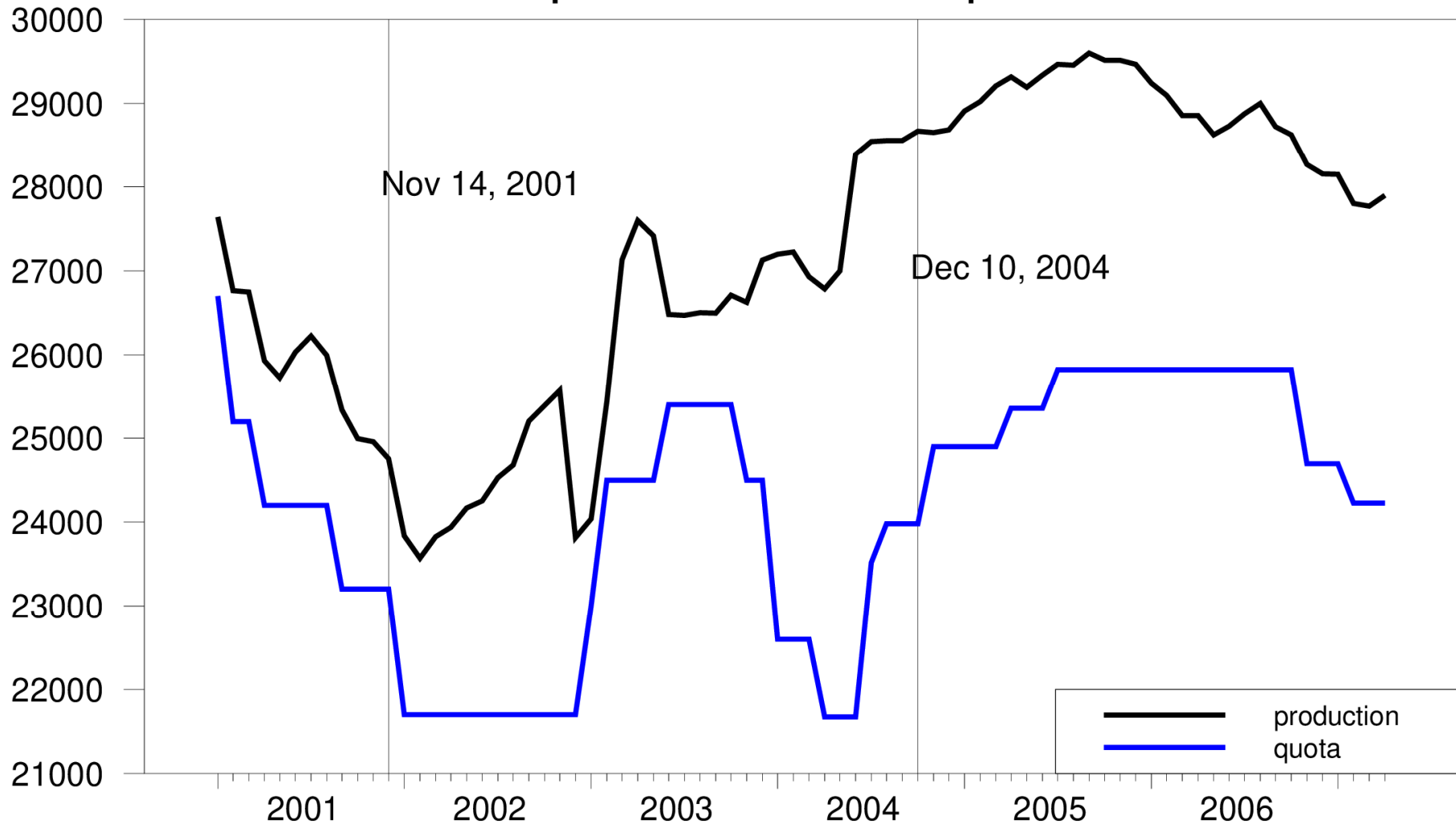production
quota

5

Saudi production and quota

Libya production and quota

Nov 14, 2001

production
quota

Kanzig's oil price surprises (Jan 2001 – Apr 2007)
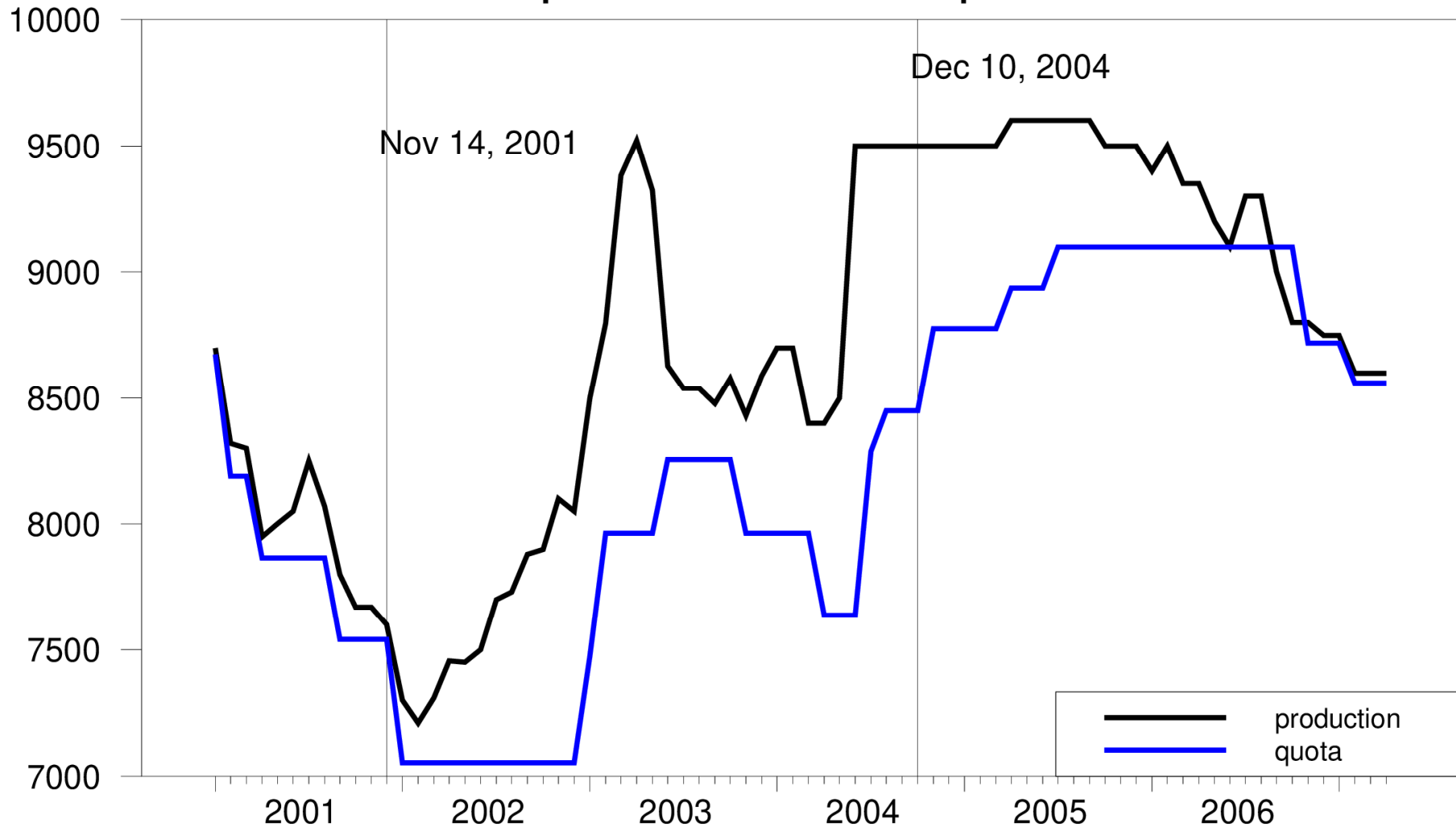
OPEC price shock

Dec 10, 2004

- Press release from 133rd (Extraordinary) Meeting of the OPEC Conference:
  - "the Conference decided to maintain the currently agreed ceiling and individual production levels. Without prejudice to the above, and while reiterating the Organization's commitment to ensuring adequate supplies of petroleum to consuming nations, and in order to prevent crude oil prices continuing to deteriorate to undesirably low levels, Member Countries, which have responded to the market need for additional supply over the course of this year by producing above their allocations, have agreed to collectively reduce the over-production by 1.0 mb/d from their current actual output, effective 1 January 2005."
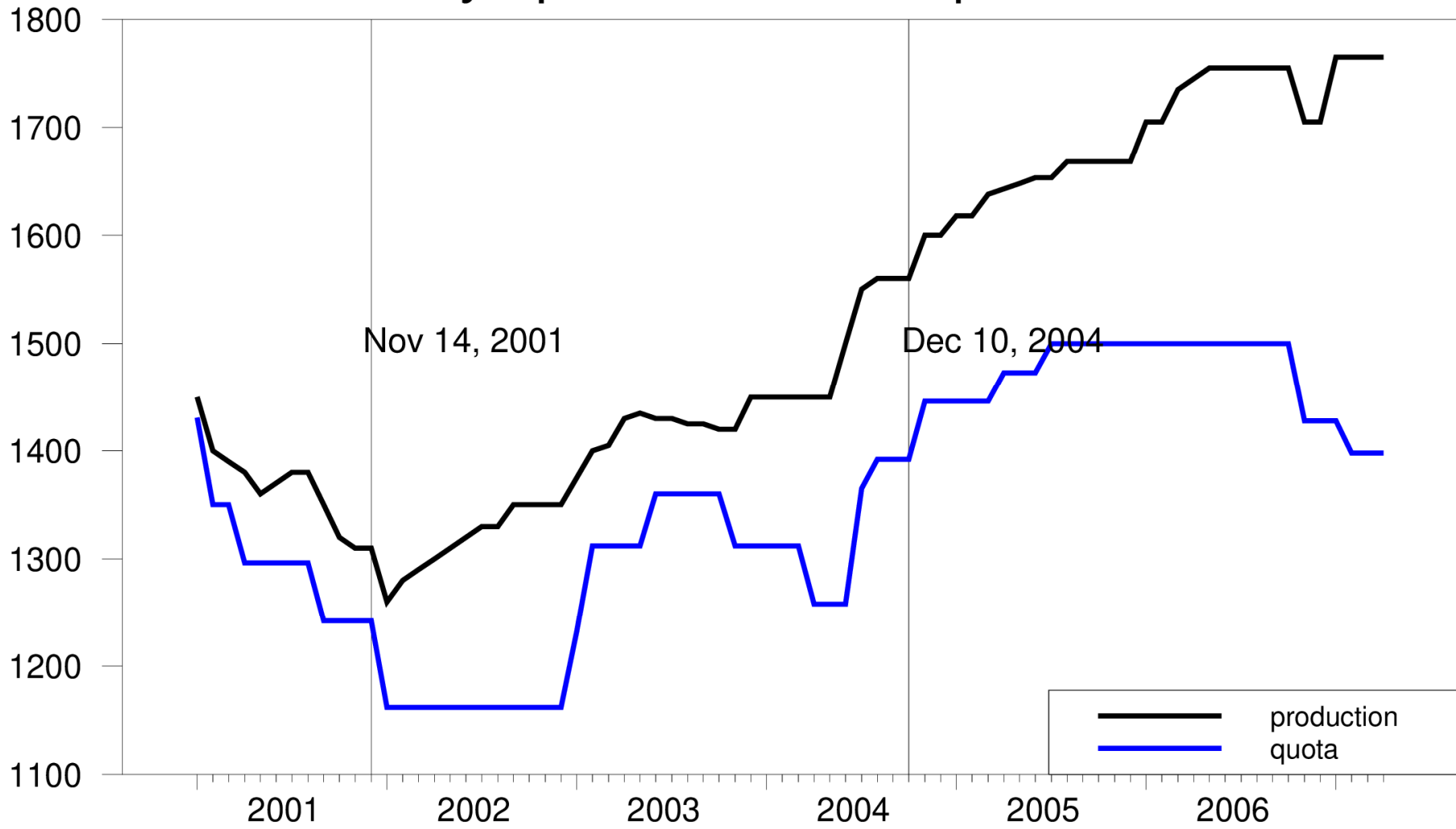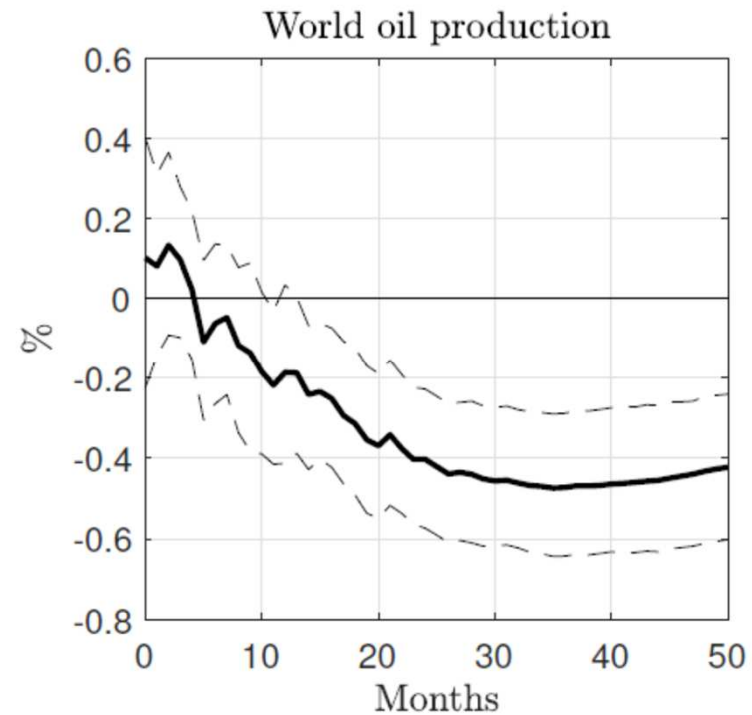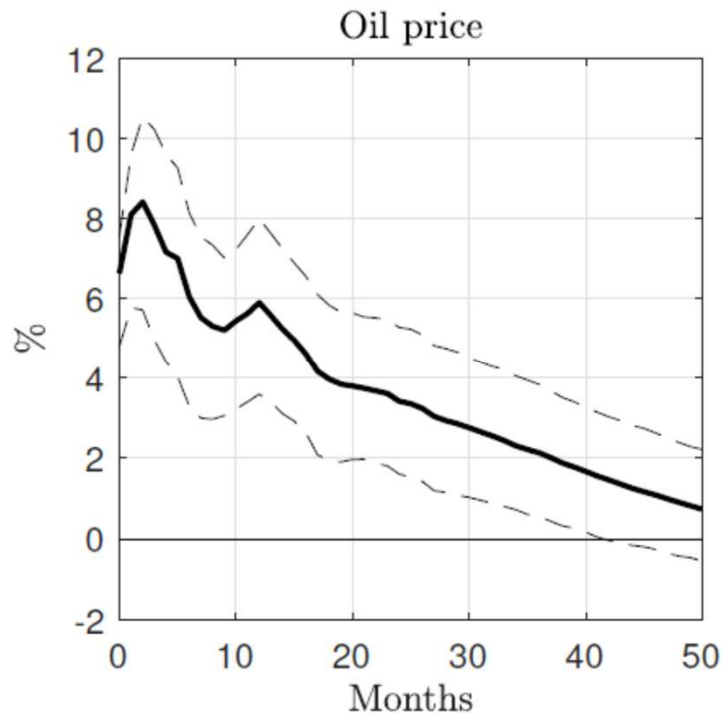
OPEC production and quota

Saudi production and quota

Libya production and quota

production
quota

Evidence that OPEC-induced price increase predicts future production decline

A simple way to estimate proxy SVAR (Pascal Paul, FRB SFO; Eul Noh; UCSD)

- Just add contemporaneous value (no lags) of instrument to VAR

- Simple to test (lagged values of instrument should have coefficients zero)