



Department of Economics Course Outline

Term: Spring 2004

Course: Economics 325
[Petroleum in the North American Economy]

Section: 20

Time: MW 18:00 ? 20:50

Place: SB 144 (subject to change)

Instructor: Kevin Johnston

Office: SS 1061

Telephone: 253-7068 (Home)
220-6102 (U of C)

Office Hours: MW 17:30 ? 17:50 or
by appointment

E-Mail: kevinj54@hotmail.com

Textbook(s):

Class Handouts. These will be made available by the instructor at the start of term. Other reference material will be held on reserve in the library and will be identified in the course notes.

Book(s) on Reserve:

none

COURSE OBJECTIVES

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This course is intended to be an introduction to the oil industry in North America with a particular focus on the workings of Alberta's oil industry. The emphasis will be on the application of basic economic principles to explain decision-making in production, processing, transportation, and marketing of oil, as well as public policy issues that affect the industry. Different influences will be discussed along the way, as the perspectives of environmentalists, regulators, customers, and competitors within the industry are brought to bear on issues of the day.

By the end of the course students should gain an appreciation for:

- the basic mechanics of oil production,

- price formation in oil markets,
- decision-making criteria of companies considering energy investments; i.e. cashflow analysis,
- private versus public decision criteria,
- sources of market power,
- rate-setting and related issues in oil transportation, and
- the role of regulation.

Note: Although the mathematical content of the course will be confined to basic arithmetic, a calculator with financial functions is strongly recommended.

Course Outline:

As this is an introductory level course, a general exposure to a number of topics is considered more valuable than intense investigation of a few areas. Following is a list of topics that will be discussed.

I. Introduction

- common property resources
- the mechanics of oil and gas production
- getting products to markets
- pricing

II. Private Investment Decisions

- the mechanics of cashflow analysis: revenues, costs, taxes, royalties, discounting
- profit indicators
- scale of operations

III. Public Interest Issues in Production

- sources of market failure: externalities, market power
- benefit/cost analysis from society's perspective: accounting for social costs and benefits, social versus private discount rates
- the role of regulators

IV. Oil Transmission and Refining

- toll setting practices in utilities
- capacity issues
- market power
- the role of regulators

V. Macro-level Planning

- aggregate demand and supply issues
- changing role of macro-regulation of markets

Grade Determination and Final Examination Details:

Midterm Examination	35%
Take-home Assignment	25%
Final Examination	40%

The take-home assignment will consist of a group project involving a written report and oral presentation. A passing grade on any particular component of a course is not essential for a student to pass the course as a whole.

A programmable or non-programmable calculator will be allowed during the writing of the mid-term and final exams.

The final exam will be scheduled by the Registrar. It will last two hours and will be held in the classroom. There will be no multiple choice questions on the mid-term or final exam.

Tests and final exams are marked on a numerical (percentage) basis, then converted to letter grades. The course grade is then calculated using the weights indicated above. As a guide to determining standing, these letter grade equivalences will generally apply:

A+	95 - 100	B	74 - 78	C-	59 - 61
A	85 - 95	B-	71 - 73	D+	56 - 58
A-	82 - 84	C+	68 - 70	D	50 - 55
B+	79 - 81	C	62 - 67	F	0 - 49

If, for some reason, the distribution of grades determined using the aforementioned conversion chart appears to be abnormal the instructor reserves the right to change the grade conversion chart if the instructor, *at the instructor's discretion*, feels it is necessary to more fairly represent student achievement.

Notes:

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KJ:pst
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