

# ACADEMICS' RESEARCH & COMMENTARY ON COMMODITIES BUBBLE

R.S. ECKAUS :: M.I.T. CEEPR

**“The oil price really is a speculative bubble. Yet only recently has the U.S. Congress, for example, showed recognition that this might even be a possibility.”**

“The Oil Price Really Is A Speculative Bubble,” R.S. Eckaus, MIT Center for Energy and Environmental Policy Research, June 13, 2008. <http://accidentalhuntbrothers.com/wp-content/uploads/2008/09/mitceepspeculationstudy062008.pdf>

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KENNETH MEDLOCK & AMY MYERS-JAFFE :: RICE UNIVERSITY, BAKER INSTITUTE

**“A new academic study contends that speculation by financial players like banks, hedge funds and index funds was behind the steep rise in oil prices last year and says that the Commodity Futures Trading Commission used models that were “not adequate” when it argued that speculation was not a major factor in the oil price spike.”**

“Study Argues C.F.T.C. Missed Oil Speculation,” Andrew Ross Sorking, New York Times – Dealbook, August 27, 2009. <http://dealbook.blogs.nytimes.com/2009/08/27/study-argues-cftc-overlooked-oil-speculation/>  
STUDY: <http://www.bakerinstitute.org/news/oil-futures>

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JEFFREY SACHS :: COLUMBIA UNIVERSITY

**“The fact that prices soared and then they came down so much really does suggest that there was a speculative element to it,” said Jeffrey Sachs, a special adviser to United Nations Secretary-General Ban Ki-moon.**

“Corn Futures Spark Riots as Speculators Take Trading to Limit,” Ian Katz and Ari Levy, Bloomberg, December 15, 2008. <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=am0liFIDE1U4>

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PAUL KRUGMAN :: PRINCETON UNIVERSITY & LONDON SCHOOL OF ECONOMICS

**“Oil speculation is back in the news. Last year I was skeptical about claims that speculation was central to the price rise, because what I considered the essential signature of a speculative price rise — physical withholding of oil from the market, in the form of high inventories — just wasn’t showing. This time, however, oil inventories are bulging, with huge amounts held in offshore tankers as well as in conventional storage. So this time there’s no question: speculation has been driving prices up.”**

“Oil speculation,” Paul Krugman, New York Times Editorial Blog, July 8, 2009. <http://krugman.blogs.nytimes.com/2009/07/08/oil-speculation/?scp=2&sq=speculative%20trading%20in%20oil&st=cse>

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ROBERT Z. ALIBER :: UNIVERSITY OF CHICAGO & CO-AUTHOR “MANIAS, PANICS & CRASHES”

**“You’ve got speculation in a lot of commodities and that seems to be driving up the price. . . . Movements are dominated by momentum players who predict price changes from Wednesday to Friday on the basis of the price change from Monday to Wednesday.”**

“Oil Rally Topped Dot-Com Craze in Speculators’ Mania,” Michael Patterson and Elizabeth Stanton, Bloomberg, June 13, 2008. [http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a1wQ1\\_Z0lvKU](http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a1wQ1_Z0lvKU)

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NOURIEL ROUBINI :: NEW YORK UNIVERSITY & ROUBINI GLOBAL ECONOMICS

**“Another reason to fear a double-dip recession is that oil, energy and food prices are now rising faster than economic fundamentals warrant, and could be driven higher by excessive liquidity chasing assets and by speculative demand. Last year, oil at \$145 a barrel was a tipping point for the global economy, as it created negative terms of trade and a disposable income shock for oil importing economies. The global economy could not withstand another contractionary shock if similar speculation drives oil rapidly towards \$100 a barrel.”**

“The risk of a double-dip recession is rising,” Nouriel Roubini, Financial Times Opinion, August 23, 2009.

<http://www.ft.com/cms/s/0/90227fdc-900d-11de-bc59-00144feabdc0.html>

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ROBERT SHILLER :: YALE UNIVERSITY & AUTHOR OF “IRRATIONAL EXUBERANCE”

**“Commodities followed the euphoria cycle that we had along with housing,” said Robert J. Shiller, an economist at Yale who specializes in market bubbles. “We had the idea that the world is growing very fast, people are getting very rich and, by the way, we are running out of everything. That theory doesn’t seem so good when the economy is collapsing.”**

“Commodity Prices Tumble,” Clifford Krauss, New York Times, October 13, 2008.

[http://www.nytimes.com/2008/10/14/business/economy/14commodities.html?\\_r=1&ref=business&oref=slogin](http://www.nytimes.com/2008/10/14/business/economy/14commodities.html?_r=1&ref=business&oref=slogin)

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KE TANG & WEI XIONG :: PRINCETON UNIVERSITY & NATIONAL BUREAU OF ECONOMIC RESEARCH

**This paper examines the financialization process of commodities precipitated by the rapid growth of index investment to the commodities markets since the early 2000s. We find that concurrent with the increasing presence of index investors, commodity prices have been increasingly exposed to market-wide shocks, such as shocks to the world equity index and US dollar exchange rate, and to shocks to other commodities, such as oil. In particular, this trend is more pronounced for commodities in the two popular commodity indices, the GSCI and DJ-AIG indices. As a result of the financialization process, the spillover effects of the recent financial crisis contributed substantially to the large increase in commodity price volatility in 2008.**

“Index Investing and the Financialization of Commodities,” Ke Tang and Wei Xiong, September 2009.

<http://www.princeton.edu/~wxiong/papers/commodity.pdf>

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MOHSIN S. KHAN :: PETERSON INSTITUTE OF INTERNATIONAL ECONOMICS

**“While market fundamentals obviously played a role in the general run-up in the oil prices from 2003 on, it is fair to conclude by looking at a variety of indicators that speculation drove an oil price bubble in the first half of 2008. Absent speculative activities, the oil price would probably have been in the \$80 to \$90 a barrel range.”**

“The 2008 Oil Price “Bubble”,” Mohsin S. Khan, Peter G. Peterson Institute of International Economics, September 19, 2009.

<http://www.iie.com/publications/interstitial.cfm?ResearchID=1281>