OIL AND THE MACROECONOMY: A QUANTITATIVE STRUCTURAL ANALYSIS

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Abstract
We model an open economy where macroeconomic variables fluctuate in response to oil supply shocks, as well as aggregate demand and supply shocks generated domestically and abroad. We use several robust predictions of the model to identify five fundamental shocks underlying the fluctuations of the (real) oil price, the US activity and the global business cycle. The estimates show that supply shocks generated in the global economy explain the largest fraction of the oil price fluctuations, about four times more than canonical oil-supply shocks. The correlation between oil prices and the US activity varies with the type of shock. (JEL: C32, E3, F4)