DWINDLING CRUDE PRICES AND ITS UPSHOT ON OIL EXPLORATION AND REFINING COMPANIES’ SCRIPS

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ABSTRACT
In today’s scenario, the extraordinary increase in the crude oil prices is one of the significant developments that affecting the global economy. Brent crude oil is a significant raw material used for manufacturing many goods, so that an exceptional increase in the price of oil is bound to warn the economy with inflationary tendencies. From 2010 until mid-2014, world oil prices had been fairly stable, at around $110 a barrel. But by late 2014, world oil supply was much higher than actual demand. Since June prices have more than halved, crude oil has now dipped below $50 a barrel for the first time since May 2009 and US crude is down to below $48 a barrel. Falling oil prices may be a bonus for consumers. But it is not such a blessing for those extracting oil and natural gas or constructing the pipelines to move those commodities. For producers, cheaper prices signify either less profits or even losses, which lead to a sluggish national economic expansion. At the time they would dip below the point to where producers could profit, they most likely stop digging and stop hiring, or even start firing. This paper analyzes the impact of oil prices on stock prices of selected Indian oil companies listed on BSE, for the period Jan 2008 to Feb 2015. This study is carried out by applying unrestricted Vector Autoregressive model with Impulse response and Variance decomposition to structure the results and facilitate interpretation. The results from the unit root tests indicate that crude oil prices and oil companies’ scrips are not stationary. The result of study shows that oil price shocks have negative impact on most of the oil company scrips.

KEYWORDS: Crude oil prices, Cointegration, oil companies’ scrips, unit root, Vector Autoregressive model.

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