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Downside and Growing Elasticity Scenario

Sommario/riassunto

This paper, using a six-region DSGE model of the world economy, assesses the GDP and current account implications of permanent oil supply shocks hitting the world economy at an unspecified future date. For modest-sized shocks and conventional production technologies the effects are modest. But for larger shocks, for elasticities of substitution that decline as oil usage is reduced to a minimum, and for production functions in which oil acts as a critical enabler of technologies, GDP growth could drop significantly. Also, oil prices could become so high that smooth adjustment, as assumed in the
