Supply Shock: Why is Gas so Expensive?

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Photo: Joshua Brown via Pexels

Introduction

Bombs drop. Oil production facilities are destroyed. Maritime vessels halt or divert their voyages away from the precarious and violent situation in the Strait of Hormuz. These are the headlines you read or see in the news about the Middle East. As you head outside, you notice a sudden uptick in fuel prices at your local gas station.

In this month's coverage of EPIS International Economic Relations, we explore the concept of a supply shock, which is the sudden change to the production and availability of goods. A supply shock may produce different outcomes, such as positive, negative, short-term, or long-term effects.

Positive Effects

Under favourable circumstances, a supply shock produces positive effects that benefit both producers and consumers. A positive supply shock results from the increased supply of goods due to events such as technological breakthroughs or increased funding that bolsters production. When the supply of goods increases, the price of goods increases. For example, company "A" discovers a massive reserve of undrilled oil. As the company increases its supply of oil, the price of oil decreases to match consumer demand, thus allowing the company to maintain or increase its profits.

Negative Effects

Oftentimes, a supply shock produces negative effects that harm consumers more than producers. A negative supply shock results from the decreased supply of goods due to events such as embargoes or damaged production lines. For example, a war damages company "A"'s oil rigs and impacts the company's production of oil. Due to the decreased oil supply, the company raises oil prices to recuperate or maintain its revenue. Consumers suffer from having to pay higher prices for the limited supply of oil.

Short-Term & Long-Term Effects

Supply Shock and the Impact of War

The concept of supply shock theory helps us understand how everyday goods can suddenly shift in availability and price during global economic crises, such as wars that directly affect supply chains and trade routes. A supply shock may positively impact producers and consumers under favourable conditions that boost productivity, while it may negatively impact producers and consumers under unfavourable conditions, such as the sabotage or destruction of production lines. As the war in the Middle East rages on, producers and consumers further await the impacts on global oil and how their lives will be temporarily or permanently impacted by this phenomenon.

Recommended Literature

Ross, S. (2026). Understanding Supply Shocks: Causes, Effects, and Implications. https://www.investopedia.com/ask/answers/041015/why-do-supply-shocks-occur-and-who-do-they-negatively-affect-most.asp.