Abstract

Almost 4 years of low oil prices and excess supply call the relevance of OPEC for current oil market into question. Therefore to investigate its role, this thesis examines the optimum oil production of individual OPEC countries accenting the consequent profit. Firstly, Cournot’s model is employed to find equilibrium price and output on the oligopolistic market. Secondly, model considering OPEC and Russia as the Stackelberg leader with competitors forming oligopolistic fringe helps to uncover the potential of the recent cartel of OPEC and Russia. In both models, data from the year 2016 with different levels of elasticity ranging from -0.1 to -0.2 are utilized. Our research suggests that all OPEC members could have increased their profits by forming a non-cooperative oligopolistic market, where prices would reach up to 81.7 USD/bbl. Moreover, as a part of the cartel with Russia, OPEC could increase its joint profits by almost 27% compared to the oligopolistic market, benefiting from coordinated output cuts followed by a steep growth in price. Thus we can conclude that either OPEC lost its power over the oil market or attempted to maintain its market share and drive higher-cost producers out of the market.