Compare the Effects of Oil Price Shocks on Japan and US

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Abstract

This paper uses several structural bivariate vector autoregression models to compare the effects of oil price shocks on Japan and US. Prior to 1985, two countries economy showed typical responses to oil price shocks, such as decreasing real GDP. After 1985, US real GDP still decreased, however Japan's real GDP increased. We investigated the share of expenditure in Japan's national income for each term and found that reduced private consumption, as well as, higher investment and exports, caused Japan's real GDP to increase. Moreover, we found that oil price shocks in the recent decade are characterized by gradual increases in prices, not sudden spikes as witnessed before.