ABSTRACT

MAMALATEO, M. L. and BULASO, M. G. B., Impact of Oil Prices on Prices of Selected Basic Commodities in the Philippines. Bachelor of Science in Business Administration Major in Economics, De La Salle University-Dasmariñas, Cavite, March 2007. Adviser: Mr. Benjamin A. Usigan.

The study investigated the impact of oil prices on prices of the selected basic commodities in the Philippines. The study aimed to achieve the following specific objectives: (1) To describe the trend of oil price and the prices of selected basic commodities; (2) To estimate the impact and significance of oil prices, oil deregulation law, and previous prices of selected basic commodities on prices of the selected basic commodities; and (3) To describe the implications of oil price and oil deregulation on the prices of selected basic commodities.

The study used secondary data from government agencies such as Department of Energy and National Statistics Office. Other relevant data were obtained from news articles, journals, and internet websites. Descriptive analysis described the trends of the variables and the implications of the oil prices on selected basic commodities. Augmented Dickey-Fuller test was used to determine nonstationary variables. The stock adjustment model determined the impact of oil prices, oil deregulation law, and past value of the CPI of the selected basic commodities. Granger causality test determined if oil price has predictive power on the CPI of the selected basic commodities.

Based on the results, oil price and oil deregulation law were significant variables on the CPI of beverage, canned meat, and dairy products having *p*-values of .0338, .0053, and .0249, respectively. Oil price and oil deregulation law positively affect the CPI of the selected basic commodities. Furthermore, the models showed that the oil price impact on the CPI of beverage was the most immediate with a mean lag of 0.3 or a month, followed by the CPI of dairy products with a mean lag of about two months, and CPI of canned meat with a little over two months.

CPI of selected basic commodities are positively affected by the price of oil as these commodities largely consume oil in their production and transportation. Given the results, however, policy makers must not assume that future effects of oil price changes will be the same as what happened in the past. This line of reasoning is based on the "Lucas Critique", which cautions on policy formulation under the assumption that economic agents are fully informed and respond rationally to environment changes using all available information to maximize their self-interests. Even as monetary and fiscal policies are effective, nevertheless, the government should consider measures such as subsidy, promotion of energy diversification, demand management, and energy conservation.