Figure 4.11. Decomposition of Oil Price Movements (1970–2004)

Movements in the real price of oil can be decomposed into three components: historical maximum \( P_{\text{max}} \), cumulative increases \( P_{\text{recovery}} \), and cumulative decreases \( P_{\text{decline}} \).\(^1\)

\[
P(t) = P_{\text{max}} + P_{\text{recovery}}(t) + P_{\text{decline}}(t)
\]

Source: IMF staff calculations.

\(^1\)Current oil price \( P(t) \) equals the sum of \( P_{\text{max}}(t) \), \( P_{\text{decline}}(t) \), and \( P_{\text{recovery}}(t) \).

\(^2\)Simple average of West Texas Intermediate, Brent, and Dubai oil prices.