Answer Sheet
"Worksheet: Gasoline Prices – the Supply and Demand of Gasoline"

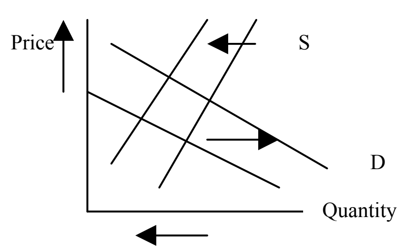
1. What are the costs to produce and deliver gasoline to consumers?
   Costs include the cost of crude oil to refiners, refinery processing costs, marketing and distributions costs, and the retail station costs and taxes. The price paid at the pump reflects these costs.

2. Explain why California gasoline prices are higher and more variable than prices in other states.
   In order to reduce pollution, California has more stringent and costly requirements on gasoline than the Federal government. California has high demand for gasoline and the state's refineries produce at near capacity. If refineries experience operating difficulties, a smaller supply of gasoline results in prices being pushed higher. World events can also result in a smaller supply of gasoline.

3. Explain how crude oil prices determined.
   Crude oil prices are determined by worldwide supply and demand, with significant influence of OPEC. In 1999 OPEC reduced oil production, resulting in significantly higher prices. Recent increases in worldwide demand have been attributed to the rebounding Asian economy and economic boom in the U.S.

   Prices are a function of supply and demand. Events can cause the supply to decrease, while the demand can remain or the same or even increase.

   (Teacher can draw the demand and supply curves on the board to illustrate).



4. Explain why gasoline prices differ according to region.
   Besides taxes, prices reflect the distance from the Gulf Coast (where nearly half of the gasoline in the U.S. is produced), nearness of refineries to crude oil supplies, shipping costs (pipeline or ship/tanker), supply disruptions (refinery maintenance, transportation problems), local competition, operating costs, and environmental programs (such as in California).