

## **The Impact of Strike to Iran on Global Energy Market**

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Received: 20/03/2013

Accepted: 11/10/2013

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### **Abstract**

The security of Iran depended on many political factors. Geopolitical regions will be affected on global security and power. Countries like Persian Gulf, and the stability of regional countries depended on the global economy. It risks triggering arms race for preventing a strong state and powerful state in region. Strong state in Iran will change the balance of power in the Middle East. Persian Gulf countries will oppose with strong state in Iran.

However, US intend to have political leaders in the region and the unraveling of the non-proliferation must conduct a robust public discussion that thoroughly treaty. US and its regional allies accused Iran for its capability in normative ideology and revolutionary policy. In addition to those mentioned by Obama, there explores the nature of the Iranian threat, the different policy are many other costs of a nuclear Iran for regional and international countries. So they reaction to the Iranian capability and abilities.

The competition of Persian Gulf and Middle East countries, will be affected on the future of regional security. Global economic cannot disregard of Iran's policy and situation. It does not consider options available, and their consequences for great power and their policy in Persian Gulf. This article discusses on relationship Iranian regional and great power policy. Western allies argue that Iran's influence in the region; emboldened Iranian-sponsored resistance groups, Iran's nuclear attempts create enormously challenging such as Hezbollah; the further spread of radical Islamism issues with no easy solutions.

In the public debate during and anti-Americanism in an already tumultuous region. In several years ago, especially since 2006 a recurring concern has been the economic reduced chance for Arab-Israeli peace; and greater military risks posed by the available means for preventing a nuclear deployment to the region that American taxpayers will Iran, whether tough sanctions or military action. Such need to fund to try to deter Iranian revolutionary policy.

**Keywords:** Iran's regional policy, Military strike, Global Energy Market, Cost -Benefit policy, Iran.

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### **1. Introduction**

Economic risks are a legitimate concern. The great powers deserve we do not seek to imply that economic considerations, by to be discussed and understood. However, to make them, is a justification for military action or tougher informed judgment about which policy to pursue, American and United European sanctions against Iran. Public discussion must consider not just the costs of stopping Iran's nuclear policy and capabilities, but also the costs of Tehran crossing the nuclear threshold is an immediate disruption in the flow of oil.

It would, however, significantly alter the geopolitical and strategic landscape. Inaction, too, exposes the United States to economic risks. of the Middle East, raising the likelihood of instability. This article aims to give them substance and describe resistance group, or conflict that could interrupt the region's oil what they might be. Its purpose is to imagine the world exports. Iran wants to have a nuclear capability. It examines just one dimension of significant effect on the supply and price of oil. The consequences: the impact on global oil prices and the resulting effect on the U.S. economy and Iran's capability.

### **2. Problem description**

Iran's energy geopolitics in two facets of geo-economic and geostrategic has the potential of supplying national security and interests. Iran in the facet of geo-economic (with respect to this point that it has the second place in having oil and gas resource sing the world) has the potentiality of being converted to one of the major energy partners of oil and gas consumers.

Middle East oil is critical to the global economy. Exports from the region-more than half of which come from Saudi Our Task Force is not suggesting that these will be the only Arabia-fulfill nearly 20 percent of global daily oil demand, costs the United States would bear if confronted with a and 35 percent of all seaborne -traded oil passes through nuclear Iran. There would be myriad consequences, direct the Strait of Hormuz. The

Persian Gulf-Saudi Arabia in and indirect, only some of which can be foreseen and particular-also is home to nearly all the world's spare quantified.

### **3. Methodology**

In this article I have used the sign of global energy and its relations on US policy to Iran. It shows that global energy have important situation on global policy. For definition of this relation, I describe the character of Middle East, Persian Gulf and North of Africa geopolitical importance. So the methodology has been descriptive-analytic and survey. Then the data was collected by piloting questionnaire's'.

We used two different models in our analysis: one developed by functionalism that emphasize on the Task Force, another method produced by the National Institute of Economic and Social Research, the National Institute Global Econometric Model (NIGEM). Both models yielded similar results. The numbers cited in this paper are the results of the Ahn model that emphasized on Task Force (Ahn, 2012: 22).

#### **3-1. Questions& Hypothesis**

As President Obama observed recently at the production capacity; if oil production or exports from the United Nations, "a nuclear -armed Iran is not a challenge region are interrupted, the rest of the world would have an that can be contained (Obama, 2012: 5). It would threaten the elimination extremely difficult time replacing those supplies. The main article question is: "What is the impact of Strike to Iran on global energy market?"

But a supply disruption is not the only way a nuclear Iran could impact energy prices. Oil markets respond to perceptions of future risks to supply and demand. Our analysis suggests that a nuclear Iran would heighten expectation of potential future disruptions, which should translate, if understood properly, into an increased risk premium added onto oil prices for as long as the concerns and tensions remain. In other words, anticipation

of future energy disruption would be priced into the market, leading to higher oil and gasoline prices (Beirs, 2012: 35)

The relationship between US policy for economic sanction Iran and threat to military strike, will escalation of regional and international crisis. The US policy affected on global market oil price and regional security. So we can emphasize on conceptual and practical correlation between Iran's nuclear activity for uranium enrichment and international limits on Iran. If Iran's nuclear capability growth, the international limits on Iran will increase.

#### **4. The analysis of Persian Gulf situation on oil and security**

Iran's geographical and geopolitical features, especially in the South East region of the country have had a significant impact on the formation and activities of terrorist groups. These factors can be divided into two categories which include: Endogenous factors that are rooted in geographical fields (natural and human) and Exogenous factors that have a geopolitical entity (Allam, 2012: 5).

There are three state patterns: unitary, federal and regional. There are some differences between state's system and power distribution in space. Unitary state pattern is divided into two parts: centralized unitary pattern that has centralized political and administrative system and decentralized unitary pattern that is centralized from political and legislative prospect and it is decentralized from administrative prospect (Hafeznia and others, 2013,14).

Oil prices went up 5 percent on July 3, 2012, following Iranian military exercises and 3 percent on July 19, 2012, after Israel accused Iran of responsibility for a terrorist attack that killed Israeli tourists in Bulgaria. "Oil isn't trading on fundamentals the way some other commodities are because of the fact you have massive geopolitical concerns about the disruption of supply," Ruchir Kadakia, director of global oil fundamentals for IHS Cambridge Energy Research Associates, told The Wall Street

Journal (Andrews and Pirog, 2012: 37).

In this region, the geographical natural and human actors that provide the fields of formation and activities of terrorists include weakness in the foundations of biological, Topography and there are the broad geographic complications, geographical isolation and relatively long distance from capital, unbalanced regional development, demographic characteristics, ethnic and religious differences with the central governments, tribal system and ethnic and religious links with the beyond boundary, being at the border and poor communication network. (Izadi and Dabiri, 2013, 108)

To calculate the change in risk premium, we divided the probability - weighted sum of the amount of oil potentially disrupted by global oil demand, yielding the potential oil disruption resulting from a nuclear Iran as a percent of the total oil supply. International corporations in global market assumed that global oil demand will remain relatively flat over the foreseeable future and used 2012 projected levels of 90 mbpd for this calculation. Energy Information Administration, "Short-Term Energy Outlook", September 2012. The potential disruption as a percent of global demand was in turn divided by the price elasticity of demand (PED) for oil, yielding the change in price as a result of change in supply.

In this phase region is situated on two ways. 1- Domination of the convergence forces and development of cooperation among the players in the region. 2- Domination of divergence forces and development of instability and competition in region. It is obvious that the role of diplomacy is very important. If the diplomacy play a positive role, the region will move to convergence and cooperation and the political players reach to common understanding that attain to their goals and interests is possible in the light of stability and cooperation. So the region comes into the situation of geopolitical rational and perfection. On the contrary, if the diplomacy plays and navigative role, the region will move to divergence and competition, so instability and dispute will develop in the region (Hafeznia, 2011: 3).

Map-1 shows the situation of Persian Gulf for oil transportation. Most of oil tanker terminal, oil fields and oil pipeline is passing from this region. So to analyze the consequences of the increased expectation of disruptions and the possible occurrences of such disruptions that would result from a nuclear Iran, our study employs an analytic approach developed in consultation with oil market analysts.

Iran in the facet of geostrategic has the position that can have a pivotal role in supplying region and world energy security. These mentioned facts decrease Iran's geopolitical power in supplying national security(Safavi and others, 2013, 40).

Map 1-The geopolitical situation; oil transportation from Persian Gulf



The experience of the Islamic Republic of Iran vividly demonstrates that as soon as Islamic thought were to be institutionalized as a system, it would confront liberalism. Islamic thinking and model may be enforced as a

regional bloc in contrast to other regions at the global level if all Muslim countries ascribe to an Islamic code of conduct. Such was the case for a period of time when the communist model operated as an alternative Western capitalism and liberalism. Political Islam in most Muslim countries serves as a pretext for oppositional politics. It is only in Iran and to a far lesser degree in Sudan and Saudi Arabia where political Islam is in evolutionary practice (Sariolghalam, 2011: 21).

United States has developed five possible scenarios. First, each analyzed individually that could impact the flow of oil through the Persian Gulf based on a range of political, diplomatic, and military repercussions of a nuclear Iran. Second, they examined how much of the world's oil supply each scenario could disrupt and assessed the effect on prices was such a disruption to occur.

Third, the members of this Task Force as well as outside experts contributed their informed judgments about the probability that each of the scenarios will occur within three time horizons: the current status quo, within one year of Iran crossing the nuclear threshold, and in the following two years (Blas, 2012: 57).

Fourth, using the anticipated increase in the likelihood of disruptions, we modeled the change in risk premium -the value added to the price due to the expectation of disruption-that would result from a nuclear Iran. Finally, using established macroeconomic models, the modeled impact of each of these possible oil price (Ahn, 2012: 48).

### **5. Analysis of Energy and Economic Effects of a Nuclear Iran**

Oil Disruptions and the Middle East Middle East oil is critical to the global economy. Exports from the region. More than half of which come from Saudi Arabia fulfill nearly 20 percent of global daily oil demand, and 35 percent of all seaborne -traded oil passes through the Strait of Hormuz. The Persian Gulf -Saudi Arabia in particular -is also home to nearly all the world's spare production capacity. If oil production or exports from the

region are interrupted, the rest of the world would have a difficult time replacing those supplies, driving prices up.

Such oil -supply disruptions-and their attendant price spike-have occurred periodically during the last half - century. Military conflict blocked vital oil chokepoints during the Suez Crisis (1956), contributing directly to a price jump of 9 percent during the conflict. Other conflicts have damaged major oilfields and facilities, or cut them off from world markets, as during the Iranian general strike and Revolution (1979), Iraq's invasion of Iran's oil - producing regions (1980), Iraq's invasion of Kuwait (1990), and the opening phase of the Iraq War (2003). Each of these events shows that the Persian Gulf have been with crisis, war and United states intervention. These events escalation of crisis and intergovernmental conflict (Hamilton, 2011: 28).

The paradoxical case is that should Muslims wish to advance economically, industrialize and enter the intricate world of IT, they are compelled to cooperate and even integrate with the liberal West and be prepared to compete in the globalization age. A related paradox is that if Muslims wish to enhance their economic power, they must bear political compromise. A Muslim state that desires to frame its politics according to political Islam is obliged to regard Muslim interests above the nation state and support revolutionary and liberation movement, oppose superpower politics and confront economic injustice. Such pursuits will subsequently (Sariolghalam, 2011: 22).

The scenarios presented below are the result of consensus among our Task Force on plausible threats to oil supplies in the Persian Gulf. We chose these scenarios because they are plausible geopolitical reactions to a nuclear Iran that could spark a range of possible energy disruptions. To account for the duration and dynamism of each scenario-as some oil production is restored or bypass export routes are activated over time-the Task Force worked with oil analysts and regional experts to express the magnitude of



each disruption in terms of the average daily oil -supply loss during the period of a year (Fenton and Hanson, 2012: 17).

This approach allowed factoring in the potential impact of petroleum stored in global public stocks, such as the U.S. Strategic Petroleum Reserve, which could be released in an emergency by coordinated action of the International Energy Agency (IEA). For each scenario, the Task Force offers a range of possible disruption amounts-and their impacts-based on whether these reserves are released or not (EIA, 2012: 22).

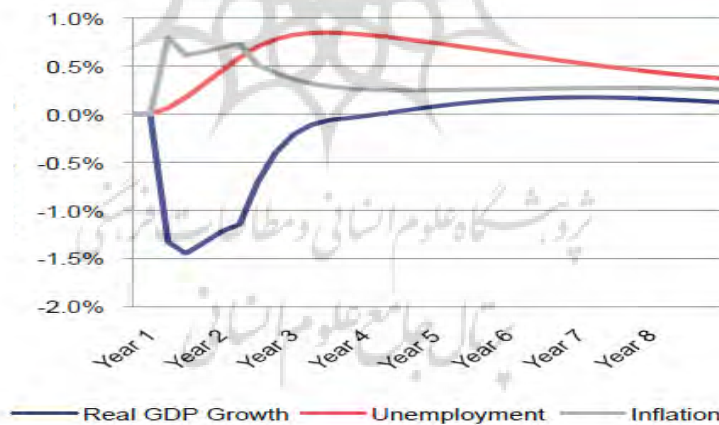
This phase is the output of double situation of fourth phase. On the basis of domination of convergence forces, the political players (states) decide to formulate their cooperation in the form of legal and political mechanism. So regional and international organization comes to establish, and integration and cooperation develop officially. The output of such situation would be stability, security, peace, development and so on in the region (for example EU). On the contrary, if instability and dispute develop, the crisis and conflict will intensify, and may culminate in the war throughout the region (for example Persian Gulf) (Hafeznia, 2011, 2)

It is important to note that at the beginning of any disruption, the market would not know the magnitude and duration of the disruption and so its immediate reaction might not reflect the true nature of the event-the market could either spike higher than the facts would merit or not react as strongly as the disruption would suggest. However, 14 Scenarios & Consequences we do not seek to account for such market behavior in our study, focusing instead on annual prices. Next, Task Force members assessed the likelihood of each scenario occurring in the current status quo, within one year of Iran acquiring nuclear weapons capability, and in the following two years. We averaged the results to arrive at an informed estimate of the probabilities that any of the five scenarios would occur.

Finally, we used an established macroeconomic model to calculate the impact each scenario could have, were it to occur, on the U.S. economy in

the form of gasoline prices GDP, unemployment, and inflation. For certain scenarios, the consequences of their occurrence would be so tragic in humanitarian terms and so unprecedented in economic dislocation that we undertook only the simplest analysis, since even the most sophisticated models cannot predict how the world would react to such devastation (Said, 2012: 73).

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Curve 1- The relation between sanction and Iranian economic

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Analysis of centralized unitary systems in some countries that have diverse geographical environment and human groups show that these systems face the following challenges: lack of geographical justice, lack of structural and functional integrity of space and homogeneity, transient and government-based participation, bureaucracy, regional and local challenges, imperceptible and sustainable development, centralized communication networks, enlarging capital of state and regional cities affected by

concentration of capital and money, concentration of governmental organizations (Hafeznia and others, 2013: 14).

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Curve 2- Oil Prices React To Instability and Crisis

**6. US sanction Iran and escalation of regional threat**

The balance and structure of power in Arabic-Islamic domain of the Middle East and North Africa is a way that any kind of change of evolution causes new geopolitical changes at different international levels along with international changes. With culminating protests and falling dictatorships in this domain, along with destabilized power and prolongation of changes in the Middle East and North Africa which resulted in the attenuation of strategic position of Israel, current situations are clear manifestations of extensive changes in strategic attitudes of power toward mentioned approaches which consists mostly of two major subjects, namely Islamic awareness along with youth claims and uprisings in the developers of geopolitics of regional government(Rashnoo, 2013, 135).

Just the expectation of potential future disruptions that a nuclear Iran would introduce into global energy markets would have a significant effect on oil prices and, by extension, the U.S. economy. Our analysis indicates that the expectation of instability and conflict that a nuclear Iran could

generate in global energy markets could roughly increase the price of oil by between 10 and 25 percent, which, given current international oil prices, would result in prices \$11 to \$27 higher per barrel will be increased.

In other words, it is not the production and consumption of oil in the United States, but worldwide, that determines U.S. prices. Most fundamentally, the price of oil is driven by supply and demand. Broadly speaking, the more oil is available, the lower the price will be, while increasing consumption of oil will drive prices up (Tomlinson, 2012: 83).

Because oil is basically fungible-where one barrel of oil is roughly similar to another, with some differences in weight, sulfur content, and viscosity supply and demand dynamic is global. Precisely because crude oil is consumed worldwide, other factors also contribute to the price of oil-namely, the costs of extracting the oil, of transporting it, of insuring it while in route, and the value of the currency upon which its price is based.

So, expectations of potential supply disruptions are also priced in, adding a risk premium on top of the more tangible factors that determine the cost of petroleum. This is because industries that rely on petroleum, whether for manufacturing purposes or for resale, such as refineries, are likely to build their inventories of oil now if they foresee the possibility of future shortages. By buying up extra oil, they drive up current demand and increase prices (Riedel, 2011: 27).

### **7. The relationship between crisis and Oil Prices**

Changing geopolitical dynamics that introduce new or added instability in oil -producing regions-such as the Middle East can increase the prospect of a future disruption and inflate the risk premium the market is willing to pay. As would be expected of a resource beholden to the dynamics of supply and demand, sudden disruptions in the availability of oil can cause its price to spike, though it can regain equilibrium as the disruption is resolved or as spare capacity is brought online to replace lost supply. But loss of supply is not the only cause for price spikes(Toukan, 2009: 73).

The latter period accelerated a price rise that began earlier and grew over the rest of the decade. Oil prices jumped at the outset of some conflicts, including 20 percent in 2003, 45 percent in 1980, 57 percent in 1978, and 90 percent in 1990. Politics played a role (as did obvious economic interests) in Arab OPEC members reducing supply to Western backers of Israel amid and following conflicts involving Israel, including the economically devastating Arab OPEC embargo in 1973 -1974, during which prices rose 51 percent. It shows that one source of oil price spikes has been physical disruptions to supplies due to warfare or politically motivated decisions(Brito, 2012: 18).

The underlying potential for instability throughout the Middle East also creates upward pressure on oil prices in the form of a risk premium. Specific examples include: the expansion of the Iran -Iraq War to northern Gulf waters and Kuwait (1980-1988), Domestic war in Syria (2011-2013), turmoil in Egypt (2013), instability in Iraq (2008-2013), and Israel's attack on Syria's garrison (2013).

A civil war can also have "spillover" effects on surrounding states, particularly if the conflict causes significant bloodshed. It may lead to large-scale refugee flows, spawn new and more radical terrorist groups, trigger regional economic dislocation, radicalize neighboring populations (especially those with ethnic, religious, tribal, or even political ties to some of the groups waging the civil war), and prompt various groups to attempt to secede from the country gripped by the war. Some neighboring states will be tempted to prey on a suddenly weak neighbor, while others will fear that some third country will do the same-or that the problems the war creates for their own domestic politics are so grave that they spread, and how civil wars grow into regional wars.(Byman, 2011: 2014)

The costs to global oil markets associated with these events were relatively minor and brief, in large part because none of them represented a credible or sustainable threat to the vitality of Gulf production and exports.

Prices either jumped less than 10 percent overnight before decreasing steadily (1986, 2007, 2011, 2013) or rose slightly for a longer period of time: as much as 8 percent over the course of a month in 1995 and nearly 4 percent for a month during the Second Lebanon War.

This process shows that, oil prices went up 5 percent on July 3, 2012, following Iranian military exercises, and 3 percent on July 19, 2012, in this process “Oil isn’t trading on fundamentals the way some other commodities are because of the fact you have massive geopolitical concerns about the disruption of supply” (Shanker, 2012: 28).

In addition to the potential disruptions resulting from scenarios involving a nuclear capable Iran, there are several estimates of the effects on oil prices resulting from a military strike on Iran’s nuclear program before it acquires nuclear capability. According to an April 2012 report by the Rapid an Group, an Israeli attack-coupled with Iranian retaliation against Israeli targets-is projected to create a \$7 per barrel premium in the first month after the outbreak of conflict, even though no oil disruption is expected to result from this scenario (Silver – Greenberg, 2012: 33).

predicting a kind of deconstructed social reconstruction and social construction based on modern nationalism with the important attendance of people in different arenas is not far from expectation, but considering the uprisings at internal and external levels, one can think of these claims as diverse and different and Islamic-governance prospects with emphasis on mild Islamic attitudes can be thought combination of Islamic fundamentals and a value along with a free political and social arena which is claimed by the young. (Rashnoo, 2013, 135)

If such a conflict expanded to drag in the United States and disrupt the flow of oil through Hormuz for three weeks, a maximum disruption of 17 mbpd, the premium would be \$29 per barrel if IEA strategic petroleum reserves were released at a rate of 7.5 mbpd. This figure would shoot up to \$47 per barrel if no strategic stocks were used (IEA, 2012: 48).



The Strait of Hormuz is a narrow passage connecting the Persian Gulf with the open ocean via the Gulf of Oman. As the primary route for Middle East oil exports to Asia, it is the world's most vital energy -transit chokepoint. Roughly 14 mbpd of crude oil flow through the strait, almost one -fifth of the global oil trade and one -third of oil delivered by tanker. The large amounts of oil that flow through the Strait of Hormuz are processed and loaded at a few of the world's largest export facilities(Cohen, 2012: 7).

Iran's 5.0 mbpd capacity terminal at Kharg Island in the northern Persian Gulf is the region's second largest facility. It is also home to 90 percent of Iran's onshore storage tanks, which have filled to the brim as sanctions caused Tehran's primary customers to look elsewhere for supplies. While it processes roughly 98 percent of Iranian exports, throughput has decreased as sanctions reduced Tehran's exports from 2.2 mbpd in the first half of 2011 to 1.7 mbpd in the first half of 2012.

This figure continues to dwindle, falling slightly below 1.0 mbpd in August 2012. Iran also maintains several, much smaller loading ports in the southern Gulf near the strait. The sharp drop -off in exports due to sanctions prompted Iran to divert as much as one -third of daily oil exports into temporary storage. By mid 2012 this amounted to 25 million barrels in onshore storage tanks at Kharg Island and another 42 million barrels in floating storage (Ian Black and Tisdall, 2010: 73).

Like Saudi Arabia and Iran, Iraq's sizable Persian Gulf exports are concentrated at one major facility near its main producing fields. The 3.0 mbpd -capacity offshore terminal near Basra in the south of Iraq handles most of that country's roughly 2.2 mbpd in Gulf -bound exports, with the nearby Khor al -Amaya facility handling the rest. Both ports are situated several kilometers off Iraq's coastline at the Gulf's northern apex next to Iran, leaving it vulnerable to mining, blockade, or being cut off overland. Unlike Iran, Iraq is not entirely dependent on the Gulf for its exports, as it

sends approximately 0.4 mbpd from its northern fields to the Mediterranean via pipeline through Turkey (Eisenstadt, 2011: 146).

There are two immediate bypass options for routing crude oil exports around the Persian Gulf and the Strait of Hormuz. The first is a set of pipelines (the Petro line or East-West Pipeline) from Saudi Arabia's Eastern Province to its ports on the Red Sea. Currently, all of Riyadh's non Persian Gulf oil exports (2.0 mbpd) flow through this route. In 2012, Riyadh converted a natural gas pipeline on this route to carry crude oil, thereby allowing it to divert up to 5.0 additional mbpd in an emergency, assuming the upstream infrastructure remains functional.

Fluctuations in the price of oil translate directly into impacts on the U.S. economy because of the reliance on petroleum based products by the U.S. government, businesses, and individuals. That reliance, what economists call the energy intensity of the economy, has actually been reduced over the last several decades. In 1975, the United States was using 1.2 barrels of oil for every \$1,000 of GDP; by 2010, that number had fallen by more than 50 percent to 0.5 barrels per \$1,000 of GDP (Hildreth, 2009: 73).

This should mean that the United States is better insulated from economic shocks when oil supply disruptions do happen. However, over the same time period, the way in which Americans use energy has changed. In 1975, the residential and commercial sector was using almost 12 percent of all the oil consumed in the United States, while almost 55 percent was being used by transportation. By 2010, those numbers had changed to roughly 6 and 71 percent, respectively.

Over that period, the share of oil used by the industrial and electric sectors also fell slightly. The result is that more of the oil used by Americans is going to fuel the cars we use to get to work and run our errands and the trucks we use to haul foods and goods. This makes oil more indispensable to our daily lives than it was 40 years ago. Thus, oil demand has become more inelastic than it used to be; even if supplies decrease and

prices go up, Americans will not easily adjust their petroleum -product buying habits (Andrews, 2011: 65).

### **8. Conclusion**

1. Some civil wars erupt when one group within a country seeks independence, while others may lead a warring group to seek independence as the solution to mounting problems.

2. As this overview makes clear, civil wars are deadly and destabilizing events not only for the countries in question, but also for their neighbors and the international community. Unfortunately, the many grievances and the weaker governments of the Middle East increase the chance that new civil wars may break out in the years to come.

3. As instability and tensions remain high, so will prices, even rising during the next several years, reaching levels as much as 30 to 50 percent, or \$30 to \$55 per barrel, higher. Within three years, U.S. gasoline prices could increase by over 30 percent, equating to roughly paying an additional \$1.40 per 30 Risk Premium gallon at the pump. At that level of increase, both inflation and unemployment would be projected to rise by 1 percent, which equates to a loss of more than one million jobs.

4. The model is a miniature economy with virtual counterparts for a wide variety of economic factors, including households; firms; the financial sector; the central bank; the federal, state, and local governments; and beyond.

### **9. Acknowledgement**

I want to thank the Research Deputy of Tehran University and the Editorial Board of *Geopolitics Quarterly* who cooperated with me for publishing this article.

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