The Arab Oil Embargo

Through most of the 20th Century, the US was a major oil producer and a net oil exporter. However, strong growth, especially in cars and transportation, drove up US demand, and in 1970 the US became a net oil importer.[1] By 1971 oil production in Texas had begun to decline, further increasing US reliance on imported oil. At the same time, many other oil-producing countries were starting to flex their economic muscles, and they wanted to prop up oil prices. The Organization of Petroleum Exporting Countries (OPEC)[2] had been formed in 1960 to manage global production for the benefit of the oil exporting countries rather than the global multinational oil companies. One of their principal concerns in the early 1970s was the weakness of the US dollar, which had declined substantially in value thanks to high inflation. Since oil prices are quoted in dollars, when the dollar declines in value the profits of non-dollar exporters go down.[3]

In October 1973 Egypt and Syria started the Yom Kippur War by launching an attack on Israel. The United States responded by providing Israel with military support, and in response the Arab exporting countries imposed an embargo on exports of oil to the US. From December 1973 to January 1974 oil prices spiked from $4.31/barrel to $10.11/barrel, and by the end of the decade had reached $32.50/barrel. Oil became scarce and people had to wait in long lines to fill up their cars. More importantly, the huge increase in oil prices cascaded throughout the economy, further exacerbating inflation. The resulting supply shock caused a two-year recession and a precipitous decline in consumer sentiment. Financial markets contracted, and the S&P 500 fell by 43% during 1973 and 1974.

Although oil prices stabilized in the mid-1970s, the embargo had a wide-ranging impact on the global economy. Oil exporting countries began accumulating "petro-dollars," which they deposited in US banks, who then needed to recycle them through loans. They found a ready market in Latin America and in US real estate, setting the stage for the banking crisis of the 1980s and early 1990s.

[1] http://foreignpolicy.com/2012/01/03/energy-independence-a-short-history/
[2] In 1971 OPEC members included Iran, Iraq, Kuwait, Saudi Arabia, Venezuela (all founding members), Qatar, Indonesia, Libya, United Arab Emirates, Algeria and Nigeria.
[3] For example, if a Saudi oil producer sells 100 barrels of oil for $75, they will receive $7,500 US dollars (USD). If they convert those dollars back to Riyals (SAR) at the current exchange rate of 3.75, they will receive SAR 28,125. If the USD weakens relative to the SAR (meaning it takes fewer SAR to buy the same amount of USD) and the rate falls to 3.25, the exporter will now receive only SAR 24,375.