THE INSTITUTE OF CHARTERED SHIPBROKERS

November 2023 ICS Examiner's Report

Economics of Sea Transport & International Trade (EST)

General comments

I am happy to present the November 2023 Economics of Sea Transport & International Trade Examiner's Report. The pass rate is once again, well above average, and consistent with the previous years' performance.

I am very pleased to report that a typical economics of sea transport and international trade essay consists of an introduction, a well- structured body, with arguments anchored on sound theory and practice, supported by examples from industry, with a brief and a sound conclusion. It is highly recommended, therefore, that candidates present their essays following the standard format described above.

Candidates are reminded, once again, that additional marks are earned by those candidates that make appropriate and relevant use of maps, as well as graphs and diagrams, and that to secure a pass , they are required to demonstrate an understanding of the key concepts and terminologies in the course, such as for example, utility, intra and inter industry trade, opportunity cost, supply and demand model, absolute advantage, economies of scale, marginal costs, break even analysis, , balance of trade deficit, and elasticity.

Q1. Explain why the dry cargo and tanker markets are referred to as ‘perfectly competitive.’

This was a straightforward question and required candidates to identify and explain the six properties of a competitive market, namely: all owners seek to maximize profits, large number of buyers of the service, large number of sellers, none big enough to influence price, homogeneous product, freedom of entry and exit, and full information.

Q2. Explain the concept of ‘elasticity of supply, with the use of suitable diagrams.

This question required candidates to include:

Definition of "Elasticity of Supply"

Elasticity of supply is measured as the ratio of proportionate change in the quantity supplied to the proportionate change in price.

The responsive of supply to changes in freight rates is influenced by the time period allowed for that response. By permitting the stock of vessels to alter; supply is more flexible than it is in the period when the stock of vessels is fixed.

One extreme case is to imagine how shipping markets respond in an even shorter time frame.

Supply might even be perfectly inelastic, for instance, having a supply price elasticity of zero. Suppose a charterer wants a vessel at very short notice from a particular port moved in 24 hours and the ship-owner knows this, he/she could extract the maximum price. The charterer is prepared to pay. The arrival of other vessels in the next 24 hours could change the whole scenario.

The potential, to exploit the market is thus transient.

Figure 3.10 Long –run response to demand changes.

Q3. Identify and examine the principal ways in which the supply of shipping services can be altered.

This was a popular question and required candidates to identity and explain that:

The supply of shipping services can be altered in two principal ways:

- altering the stock of vessels
- altering the way that the existing stock of vessels is employed

Altering the stock of vessels:

- scrapping rate
- new-build deliveries rate

Altering the way existing stock of vessels is used:

- altering storage numbers
- altering lay ups
- altering vessel speeds
- altering balance of laden voyages
- altering time at sea to time in ports.

Q4. 'Although few countries practice free trade, most economists hold up free trade as a desirable policy'. Discuss.

This question produced some very good essays and included in the discussions:

Definition of Free Trade and Comparative Advantage

- explained that free trade is the reduction of regulations and other constraints on business to increase international trade. Also known as 'trade liberalization', reducing tariffs and other barriers, so nations can import and export without restraints.

Comparative Advantage: with reference to the ability of a person or a country to produce a particular good at a lower marginal cost and opportunity cost than another person or country.

- ability to produce most efficiently given all the other products that could be produced

- how trade can create value for both parties even when one can produce with fewer resources than any other. The net benefits of such an outcome are called gains from trade.

- outlined the features of Free Trade:

- trade in goods and services without taxes or other trade barriers
- the absence of ' trade-distorting' policies
- free access to market
- free access to market information
- inability of firms to distort markets through government-imposed monopoly or oligopoly power
- free movement of labour between and within countries
- free movement of capital between and within countries.

Q5. Define and briefly explain **ALL** of the following topics:

a. Price Discrimination

b. Equilibrium Freight Rate

c. Shipping Cycles

d. Break Even Analysis

This was a straight forward question and required candidates to provide brief and clear definitions of the terms and concepts above.

Q6. Examine the effects of the imposition of a tariff on an imported product. Use a graph to support your answer.

This was a straight question and required candidates to include:

Definition of Tariff:

The traditional means of restricting imports. These taxes are placed on imported goods which raise their prices in the levying countries domestic market above those in international markets.

Two basic ways:

- ad valorem basis
- specific duty

World price before tariff is PW and at this price , domestic demand is Qd and domestic supply is Qs . Because of the tariff , the import price rises to Pw + T. This causes a contraction in demand to Qd2 and an expansion of supply to Qs2. The result is that the volume of imports falls to quantity M.

The net result is that 1) domestic output has risen 2) imports have fallen , 3)consumers now pay a higher price.

Two principal effects:

1. Consumers are worse than in free trade position, as they pay higher prices and therefore buy less of the product being protected. Consumers are worse off, and suffer from a loss of surplus.

2. Producers may appear to be better off as they have expanded. In a sense they are, but this is false, because comparative advantage assumes full employment, meaning that resources have been redeployed in the protected sector have been moved from elsewhere. It stand to reason that output elsewhere in the economy has fallen.

Overall, there is a loss to consumers and also an efficiency loss on the production side , as resources are redeployed in an inefficient manner.

Diagram showing the effect of an import tariff on an imported product.

Q7. Discuss the advantages and disadvantages of increasing ship sizes.

This question was popular and the best essays included:

Main factors that determine size of vessels:

-Trades

-Frequency of shipments

-Value of inventory

-Volume of business

Advantages of Large Ship:

Explanation of why bigger is generally better than small: more can be carried for less - per unit basis.

Example: bulk carrier of 30,000dwt and another of 200,000 dwt could have same;

Example of the tanker market: crude and refined products and the size of vessels employed.

Crew size and associated costs, management overheads, selling and administrative expenses , as far as bunkers are concerned the consumption may perhaps be double but not four times greater nor would the construction costs be 4 times greater.

Example of the Ms Emma a very good example of bigger being better .

Disadvantages of increasing Ship size

- Restrictions on vessel size:
- Trades, patterns and changing dynamics.
- Port and Canal draught, locks etc.
- Port Equipment and facilities.

Q8. Answer **ALL** parts of the question:

Within the dry market, market, describe **ALL** of the following.

a) Iron market

b) **Four** main importing and exporting countries of iron ore

c) Major factors that impact the market, in the short and long term.

Use the world map to support your answer.

Questions on maritime geography are getting more popular. Candidates that scored the highest grades, made use of the world map provided, and included-

- brief description of Iron market.
- main exporters: Australia, Brazil, Canada, South Africa & Sweden.
- main importers: China, Japan, South Korea, Germany & Taiwan.

Major factors that impact the market:

- impact of large economies of scale benefitting the biggest producers
- long-term investment plans of the top three iron ore producers, whose, operating costs are among the lowest in the world, showing that they intend to reduce costs further and increase production aggressively.