ECONOMICS OF SEA TRANSPORT

INTRODUCTORY REMARKS

It is very encouraging to note that the quality, length, depth and the use of current industry examples in candidate's answers continue to improve. The use of graphs and diagrams to support arguments is yet another commendable and outstanding feature of this year's answers, well done!

1. The last decade has seen massive investment in container port expansion, development and privatisation in response to increased global trade. For a port of your choice, identify and discuss the factors that the port management needs to consider in order to secure regional and global competitiveness.

This was one of the most popular questions and very well answered. Candidates were required to choose a port and discuss the factors that port management needs to consider in order to secure the chosen port's regional and global competitiveness. They identified and commented on the array of physical facilities and services which provide an interchange between sea and domestic transport, port handling equipment, machinery and support services, warehousing facilities, information and communication technologies, industrial manufacturing facilities, marketing and sales support services, repairs and stock/victualling as well as future development plans.

2. Distinguish between intra-industry and inter-industry trade flows. How can these flows be explained by economic theories of international trade?

Surprisingly this was the least popular question. This question required candidates to provide definitions of intra-Industry and inter-industry trade flows with the support of examples followed by an explanation as to how these trade flows can be explained by economic theories of international trade such as absolute advantage and comparative advantage.

3. Draw a graph to demonstrate the supply and demand model. Explain how global trade has been affected by changes in freight rates over the past thirty years.

This was one of the most popular questions with no shortage of graphs and diagrams in support of arguments. Candidates were required to draw a graph to demonstrate the supply and demand model and explain how global trade has been affected by changes to freight rates over the past thirty years. Candidates needed to show how the development of transport systems, bigger ships and effective organisation of shipping operations have resulted in reduced freight costs and the resultant long-term growth and development of the global economy. They needed to mention the benefits of economies of scale, sourcing of raw materials, finished goods globally and the opening of overseas markets, increased global FDI flows, increased global productivity and business and trade.

4. Using appropriate examples, explain the concept opportunity cost as it applies to the shipping industry.

This was a well answered question with relevant shipping examples. This question called for a discussion of the concept of opportunity cost accompanied by relevant examples: such as shipowner: investment in a new ship or old ship a decision needing to be made whether to invest in new ships or continue operating old ships knowing that their price could go down whilst the cost of new ones go up. Shipowner foregoes the return on his capital at the bank to invest in new builds. Charterer: choice of one cargo/ route/ length of hire or charter and reasons. Port Agent: choice of one shipping line as opposed to another and the reasons.

5. The freight market is subject to the forces of supply and demand along with other factors. Explain how freight rates have been affected by one or more recent market trends.

Surprisingly, this was one of the least popular questions, even though it gave candidates the opportunity to show their understanding of current affairs and an application of theory to shipping practice. Sound theory and knowledge of market conditions – the current oversupply situation and impact on freight markets were required. Vital points include: tonnage supply; new deliveries and on order; being scrapped or billed for scrapping; choke points; bunker prices; world commodity demand; levels of industrial production; seasonal pressures and market speculation-choice of a relevant factor and explanation to sum up.

6. Explain why ship sizes vary within ship types. Explain the theory of economies of scale and give examples where this theory might not apply.

This was the most popular question with some very well structured answers. Candidates were required to define the concepts of economies and diseconomies of scale and explain how these two concepts affect the choice of ship sizes within ship types. They needed to make reference to the cost advantages that a business obtains due to expansion and factors that cause a producer's average cost per unit to fall as the scale of output increases. Diseconomies of scale being the opposite and an explanation as to why bigger may not always be better and a mention of additional factors that also influence the choice of ship size such as: types of trades, frequency of shipments, value of inventory, volume of business and the restrictions on vessel size, port and canal draught, locks.

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7. Discuss how fluctuating exchange rates between currencies can affect shipping business and operations within the international shipping industry.
This question required candidates to discuss how fluctuating exchange rates between currencies impact the operations and profitability of shipping business within the international shipping industry. The best answers explained that since the most important inputs in shipping are in US$, adverse movements of the dollar could result in reduced profits in the operating results of a shipping company. Examples of such costs directly affected by currency rate movements being: bunkers, lubricants, crew costs, port, canal dues, dock dues, victualling and shipbroking fees, overseas dry docking as well as flag state requirements.

8. Consider the implication for world trade and shipping if OPEC decreased the supply of crude oil.
A popular question which required candidates to highlight the centrality of oil and its immense impact on global economic activity and the identification of likely scenarios that would negatively impact the world economy and shipping such as: reduced global production, reduced spending on goods and services which could drag the global economy into a double dip recession, the growth of the green energy movement with governments exploring ways of securing more sustainable energy sources and taking other measures to make their countries less vulnerable to these hikes in energy prices, increase in bunker prices and input cost leading to high freight rates.