

INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2009 EXAMINATIONS

TUESDAY 21 APRIL – MORNING

ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE

Time allowed – Three hours

Answer any FIVE questions – All questions carry equal marks

1. ‘Virtually all economists consider opportunity cost as a central concept’. Using examples explain the concept as it applies to the shipping industry from the point of view of a port agent, a ship owner and a charterer.
2. Crude oil prices collapsed from a record high of \$147 per barrel in July 2008 to around \$40 per barrel by mid December 2008, despite aggressive production cuts by Opec. Discuss the reasons behind this collapse and comment on attempts by the cartel to influence the price of crude oil.
3. ‘Although few countries practice free trade, most economists continue to hold up free trade as a desirable policy’. Explain why economists favour free trade policies and whether such policies are solutions for the world’s current economic difficulties.
4. Canals provide an invaluable service to global shipping and international trade. Consider the likely economic impact that increased piracy and lawlessness in the Gulf of Aden is likely to have on the Suez Canal, global shipping and international trade.
5. It is said that relatively low profits are achieved in liner trades. Using economic theory explain in detail why this is the case and consider the competition between liner companies.

6. Charter rates for dry bulk carriers plummeted over 90 per cent from mid May 2008 to mid November 2008, creating crisis conditions for the dry bulk shipping industry. Discuss the challenges facing the key industry players such as: shipowners, shipyards, charterers and ship financiers.

7. In June 2008 an eminent economist argued that ‘the explosion in global transport costs has effectively offset all the trade-liberalisation efforts of the past three decades’ Do you agree? Use diagrams to explain.

8. Assess the extent to which the tanker market can be considered to represent a market operating under perfectly competitive conditions.

THE INSTITUTE OF CHARTERED SHIPBROKERS

ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE (EST)

2009

EXAMINER'S REPORT

OVERALL COMMENTS

The number of candidates sitting the Economics for Sea Transport examination continues to increase every year and this year shows a marked improvement in quality, length and depth of answer scripts. Answers to questions 2,4,6,8 were all supported with current statistics, shipping and international news, and showed evidence of critical analysis and assessment. This positive development, suggests that candidates now appreciate the three, aims of the course, which are:

- 1) to ensure a 'broad understanding of the economics of the commercial environment in which shipping operates'
- 2) to appreciate the factors which influence the supply and operation of and demand for ships and shipping services and shipping services and
- 3) to develop the essential professional transferable skills of critical assessment and analysis.

QUESTION 1 – OPPORTUNITY COST

Given the fact that opportunity cost is a central concept, it is surprising that this was one of the least popular questions tackled by candidates. The question required candidates to explain the concept and to relate the concept to the shipping industry from the point of view of a port agent, a ship-owner and a charterer. The few candidates who attempted the question scored high marks as examples were plentiful. Illustrating this answer with the appropriate diagram was advantageous.

QUESTION 2- CRUDE OIL PRICES 2008

Not surprisingly, this question was one of the most popular and afforded those candidates that answered it with the opportunity of showing off their knowledge of the crude oil market and its unprecedented peak at £147 in July of 2008.

Reasons for the collapse of the oil prices included : decline in global industrial production and the consequent recession, financial crisis, fall in the value of the dollar and the repatriation of assets .

Candidates were required to comment on the reasons why the cartel – OPEC – were unable to stem the downward spiral of the oil prices .One of the reasons being the refusal of some countries such as Russia to join in production cuts. Opec’s inability to influence the price and the erosion of her power was emphatically stated by several candidates. Very well answered with many examples drawn from current shipping and international and finance news.

QUESTION 3 – FREE TRADE

This question required candidates to define comparative advantage and to explain with reasons why Free Trade is a favoured policy, particularly in the depressing economic times of late 2008 with all major economies sliding into recession . Again, those candidates who were current in their international shipping and trade issues demonstrated their knowledge, by quoting relevant examples from shipping, financial and international news. Some of the important features of Free Trade and its benefits include free access to world markets, absence of trade distorting policies, free movement of capital, goods and services. Other reasons in support of Free Trade are: devastating effects of protectionism as seen in the Great Depression of the 1930s It was disheartening to find some candidates spoiling their chances of scoring high marks by going off on a tangent and writing extensively on why some nations practice protectionism. This question was about Free Trade and its benefits.

QUESTION 4 - CANALS AND WATERWAYS

A well answered question and again typical of 2008 answers, it was well supported by current shipping and international news. This question required a brief review of the importance of the canal to global trade in particular oil trade, 7.5% of world sea trade is through the Suez Canal Effects of Piracy include: increased insurance claims and their impact of international trade, profits, re-routing of tonnage via Cape of Good Hope, political and economic concerns for both Europe and the US, provision of merchant ships with own defences and the economic and logistic implications

QUESTION 5 – LINER TRADES – PROFITS

This question was straightforward and required candidates to fully explain the Conference paradox , short term profit maximization, contestable market theory and the empty core thesis, identification of the competitive pressures: internal and external in support of their answers .A well answered question.

QUESTION 6 – COLLAPSE OF BULK CARRIERS FREIGHT RATES

Candidates who scored highly gave the following reasons for the collapse of the freight rates: derived demand, falling global demand, economic slow down of the major economies , US, EU, China and India, reduced demand of Iron Ore by China and then went on to identify the challenges facing Ship owners, Charterers, Financiers and Shipyards. This was one of the most popular and well answered questions

QUESTION 7 - GLOBAL TRANSPORT COSTS

This was the least popular question. Candidates were required to show that transport costs can potentially be a barrier to trade and to demonstrate the fact that the high price of transport can increase the landed cost of imports and thereby affect and influence the direction and flow of international trade. Using graph to illustrate this answer would have gained bonus points

QUESTION 8 – COMPETITIVE MARKETS

This was a straightforward question and the most popular. Candidates were required to explain what is meant by ‘perfectly competitive market’ and explain fully the presence of the five characteristics in the light of the Tanker Trades. A very well answered question.