

Examiner's Report

April 2016

Economics of Sea Transport and International Trade

General comment

What is very encouraging about Economics of Sea Transport and International Trade essays year on year, is not just their improved quality, but evidence of the application of the advice contained in the Examiners Report.

Once again, the April 2016 Economics of Sea Transport and International Transport exams produced some very well structured answers supported by current and international trade and shipping practice, relevant graphs diagrams and maps.

The majority of essays had an introduction, main body consisting of distinct paragraphs and a conclusion.

In what is now a growing trend, students jot down the main points of their chosen questions and use this structure to write their essays. This approach is responsible for the continued improvement in quality, length and depth of essays.

Those students that understood the key words such as: analyse, discuss, identify and examine scored high marks. Students are therefore, advised once again pay attention to the meaning of these key words.

Question 1

Critically analyse the liner trade, commenting on the types of ships and routes used with the associated fixed, variable and capital costs.

This question required students to analyse the liner trade, commenting on the types of ships and their characteristics, service schedules, capacity utilisation, ship costs, deployment and mix of container sizes and type of the trade and of course the associated fixed and variable costs such as; container handling costs, port charges and canal costs, marketing and inland service facilities, maintenance, repair, insurance, administrative and terminal handling costs.

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Question 2

What is a balance of payment disequilibrium and how can it be corrected?

This was one of the less popular questions.

This was a two part question and the best answers were those that dealt with the two parts equally and provided relevant examples. Students were required to define a balance of payment disequilibrium followed by an explanation as to how it could be corrected.

Corrective measures would typically include; monetary policy and fiscal policy, devaluation of currency, exchange controls as well as increased value addition to a nation's natural resources.

Question 3

Discuss the impact that a sustained drop in crude oil prices would have on shipping and the global economy in both the long and short term.

This was a very popular question and produced some very well argued answers. Students that scored highly gave equal weight to the four parts of the question; impact on low oil prices on shipping and the global economy, in the short and long term.

Students must read questions very carefully and ensure that they answer all parts of the question. The question required students to comment on the overall effects of the drop in oil on the global economy and shipping in both the short term and the long term, including:

- The positive Impacts in both the short and long term: shipping and global and domestic fronts.
- Winners and losers on both sides of the equation with examples.
- Negative impacts of the drop in oil both short term and long.
- Effects on the major players: Western economies, emerging economies, the developing world and the oil producing countries.
- Effects on shipping, bunkers etc, operating costs with their resultant impacts; new trade routes with accompanying examples

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Question 4

Using appropriate examples to support your answer, explain the concept 'opportunity cost' as it applies to the shipping industry.

A popular question and very well answered. Students that scored highly provided industry relevant examples and demonstrated their understanding of the concept of 'opportunity costs' and were therefore able to apply it to the shipping industry. A good starting point in this and similar cases is the definition of the concept and to apply the definition to relevant sectors in the shipping industry. It is critical that relevant examples are quoted. Some of the relevant areas include: shipowner, charterer and port agent.

Examples:

- Shipowner: investment in new or old ship,
- Charterer: choice of one cargo /route/length of hire or charter with reasons and
- Port Agent: choice of shipping lines opposed to another with reasons.

Question 5

Answer BOTH parts of the question.

- Define free trade and comparative advantage.**
- Discuss the advantages and disadvantages to a country of having a free trade policy.**

This was one of the popular questions. It is a two part question that required students to give equal weight to both parts.

The first part of the question required a definition of comparative advantage and free trade, whereas the second part required a balanced discussion of the advantages and disadvantages to a country of having a free trade policy.

Students were offered an opportunity to freely express their views on this very important topic, looking at both the pros and cons of this policy. Those students that had prepared well produced very good answers.

Advantages of a free trade policy would typically include: trade free of barriers, absence of 'trade distorting policies, free access to markets and information and free movement of people , services and capital.

Disadvantages: market distortions, reduced market access, loss of economic welfare, regressive effect on distribution of income, production inefficiencies, trade wars/negative multiplier effects.

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Question 6

Explain why the concept of substitution is so important to the elasticity of demand for shipping tonnage. Use diagrams to support your answer.

This question was another two part question that required students to explain the concept of substitution and why it is central to the elasticity of the demand to shipping tonnage.

Students were required to explain the concept of substitution and then proceed to explain why it is central to the elasticity of demand for shipping. Derived demand elasticity is best explained by the four Marshall Rules.

A brief conclusion of the main elements of derived demand highlighting substitution was needed.

Question 7

Identify and explain the demand factors that influence a layup decision.

This was a very popular question. Students who scored highly first identified the demand factors that influence a lay up decision and then went to explain those demand factors in detail. Most of the answers made interesting reading as they covered a wide range of issues which were supported by relevant industry examples and demonstrated a clear understanding of theory and practice.

This question typically included: definition of lay up, an identification of demand factors/conditions such global demand for commodities, costs: money, fixed and operational, recessionary conditions etc, prevailing and perceived conditions.

Question 8

Explain the effect of demand and inventory on optimal ship size. Use diagrams to support your answer.

One of the least popular questions and not very well answered. This question required students to explain the effect of demand and inventory on optimal ship size with the aid of diagrams. The diagrams/graphs that examiners are looking for are to be found in the Economics of Sea Transport and International Trade course book. Students were required to explain volume and characteristics of demand and inventory costs, growth in global trade, long haul routes: European Union and North American economies and how they impact ship size.

The higher the inventory cost, the smaller the optimum vessel.

High cargo unit prices reduce optimal ship size and vice versa.

Higher inventory costs - inventory costs as a part of overall cost per tonne delivered and the implication: increased vessel size means increased draught, beam, length and reduced flexibility.