



# EXAMINER'S REPORT

## NOVEMBER 2017

### ECONOMICS OF SEA TRANSPORT

#### General Comments

It should be made clear to all candidates that passing an examination requires ; completion of the syllabus, comprehensive revision work and a strict adherence to the examination techniques referred to in past examiners' reports.

Candidates are reminded that, Economics of Sea Transport & International Trade essays have an introduction, a body; consisting of distinct paragraphs and a conclusion and that graphs on graph paper and maps should be used to support arguments/answers.

To secure maximum marks, candidates must pay careful attention to keywords within a question such as: examine, analyse identify, comment, discuss, describe, predict, apply, explain, compare and contrast, in order to demonstrate their understanding of the salient aspects of the question.

Candidates are further reminded that they must endeavour to demonstrate to examiners their grasp and application of their understanding of key economic concepts such as: utility and price, elasticity, opportunity cost, economies of scale, law of supply and demand, derived demand and the price mechanism, in their answers.

While, it is true that there is no such thing as a correct answer in economics, as it is an evolving discipline, candidates' arguments must be supported by economic theory.

To recap, candidates are advised to adopt a well structured learning and revision regime and endeavour to produce essays that are well structured and supported by theory, relevant industry examples, graphs and maps.

#### **Q1. What role does seaborne trade play in global economic growth and development.**

Candidates were required to explain the role that seaborne trade plays in global economic growth and development and that 75% of world trade volume is carried by sea.

Adam Smith the father of modern economics saw shipping as one of the stepping stones to economic growth. In the wealth of nations he argued central economic force in a capitalist society is the division of labour and the extent to which this can be practised depends crucially upon the size of the market.

A business working in a country /town without links to the outside world can never achieve high levels of efficiency because it's very small market will limit the degree of specialisation.

Candidates needed to mention that the major factor in the level of demand for seaborne, in the long run is dependent upon factors such as population, changes in standards of living and that 70% of observed increase in world trade was solely due to simple economic growth in relevant economies.

That total volume of trade has more than doubled in the last 20 years and the spectacular growth in world trade has generated a corresponding growth in demand for transport services.

Candidates were also required to explain that demand for shipping is dependent on a number of factors: amount of international trade between countries, level of world economic activity, volume of seaborne trade generated and its major commodities; oil, grain, iron ore, containers and distances over which cargo is hauled.

**Q2. Examine the critical role of ports in the global transport system.**

Candidates that prepared well produced very well structured essays with relevant examples and explained that ports are the third pillar in the transport system and provide interface between land and sea, citing elements such as ports crucial role in; the efficiency of ships, provision of secure location where ships berth, improved handling facilities, facilities for different cargoes, part of a fully integrated global transport network/ supply chain, location for manufacturing and export processing facilities and crucial role in the globalization and liberalization of trade.

**Q3. Explain the five main arguments in support of protectionism.**

This was a relatively straight forward question and produced some very well argued essays with relevant examples. The best answers centred their arguments around the five main arguments namely; infant industry argument, smoothing the allocation of resources argument, strategically important industry position, anti dumping behaviour and temporary balance of payments disequilibrium.

**Q4. Analyse the factors that affect the relationship between costs and shipping output.**

Candidates were required to analyse the factors that affect the relationship between costs and shipping output. Candidates that had prepared well identified at least five factors from a possible seven and carried out an analysis of how these factors affect the relationship between costs and shipping output. The factors included: load factor, vessel speed at sea, voyage distance , cargo handling rates, the proportion of journey spent in ballast, time spent in port/ time at sea and the size of the vessel.

**Q5. What effect do high transport costs have on imports? Use suitable diagrams to support your**

**answer.**

This question required candidates to explain the effect of high transport costs on imports and to use a graph to support their argument. Candidates needed to explain that the presence of transport costs means that there is a potential barrier to trade. If high, they act as just as if the price of the import has been increased, so the size and trends in transport cost influence the way the market develops. Increased transport cost would therefore cause: major slow down in seaborne trade, fundamental realignment in trade patterns, freight sensitive low value cargoes generally first casualties, containerisation and how it makes transport costs more vulnerable to fuel cost swings. The best answers provided relevant industry examples. A graph was required.

**Q6. Explain why the dry and tanker markets are referred to as 'perfectly competitive'**

Candidates were required to identify the five main characteristics of a competitive market and to explain using shipping examples why the dry and tanker markets are referred to as 'perfectly competitive'.

The five main characteristics: every supplier of the industry seeks to maximise profits, numerous buyers and sellers in the market, service provision is exactly the same, easy exit from and entry to the market and full information available to all.

**Q7. What are the major factors that influence a lay-up decision and comment on the costs incurred when a vessel is laid up.**

This question required candidates to identify the main factors that influence a lay up decision and to comment on the costs incurred when a vessel is laid –up.

The two principal factors are expectations that the owner holds of the future levels of freight rates and actual cost of running the vessel as an on going venture. The demand conditions that needed to be mentioned were: derived demand, recessionary conditions, low productivity, diminishing global trade, high operational costs, low future growth prospects, reference to prevailing conditions and that lay up costs money.

Laid up vessel need; maintenance, power, safe haven, skeletal crew, re-commissioning costs and capital costs including; insurance, additional insurance and other administrative costs.

**Q8. Explain how the rate of exchange between international currencies is determined. Use a graph to support your answer.**

This question required candidates to explain how the rate of exchange between currencies is determined, with the support of a graph.

Candidates were required to explain that the rate of exchange is the price of a nation's currency on

the foreign currency market and that trade and capital flows are the main factors affecting the exchange rate. The rate of exchange between international currencies affects the prices of exports and imports and crucially, that the value of a currency is determined solely by market demand for and supply of the currency in the foreign exchange market. Some of the best answers mentioned that it is rare for pure free floating exchange rates to exist as most governments seek to 'manage' the value of their currency through changes in interest rates and other controls.