



EXAMINER'S REPORT NOVEMBER 2019

ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE

General comments:

Essays: For the most part were well structured, anchored on sound theory and practice and supported by examples from industry. The essays that secured the highest grades presented arguments that were based on well founded theory and practice, and supported by examples from relevant and current global shipping and economic news and events.

Candidates are reminded that, a successful student of the Economics of Sea Transport and International Trade, is also a keen student of geopolitics, international finance and trade and socioeconomic issues.

Noticeable, was the application of sound examination techniques, acquired from tutors and revision sessions, such as the listing of the main points, at the beginning of every essay which gave essays a balanced structure and flow to them. These standards must be maintained.

Candidates are reminded, that maps are there to be used! Geography is an essential part of the study of the Economics of Sea Transport and International Trade, in general and shipping in particular! Furthermore, marks are earned by those candidates that make appropriate and relevant use of maps.

Candidates are reminded once again, that they are required to demonstrate an understanding of the key terms and concepts in the syllabus, such as, economies of scale, utility, derived elasticity, marginal costs, shipping cycles and comparative advantage. As in past years, candidates, who were able to define key theories and concepts in a question, submitted sound well balanced essays, and therefore scored high marks.

Q1. Define the main FIVE reasons in support of protectionism, using examples to support your answer.

This question required candidates to identify the following five basic factors in support of protectionism:

Infant Industry argument, smoothing the reallocation of resources argument, the strategically important industry argument, to counter dumping behaviour by foreign governments or companies, to correct temporary balance of payments disequilibrium, and

to provide supporting reasons.

A concise conclusion of the five factors was also required.

Q2. Answer BOTH parts of the question. Within the coal market, describe;

- a) The TWO main sectors and current market conditions.**
- b) Main importing and exporting countries.**

This question required candidates to answer both parts, identify the two main sectors of the coal market and to describe current market conditions.

Current market trends, issues and developments, would include the fact that coal is still major component of South East Energy mix, environmental regulations and growing power of green energy and a major threat to the coal industry. A discussion on clean coal as a niche!

A summary of current and future trends and conditions was required.

A mention of at least five main importing and exporting countries was required.

Q3. Explain why governments use subsidies in the maritime industry. Use examples to support your answer.

A definition of the term "subsidy" would be a good starting point. This question required candidates to explain why subsidies are used by governments in the maritime industry with supporting, and relevant examples.

A subsidy is a form of government intervention; it usually involves a payment by the government to suppliers that reduce their costs of production and encourages them to increase output of a good or service.

Identification of at least three different types of subsidies, e.g. producer subsidies. Examples of subsidies would include cheap finance by overseas shipowners who decide to place order for new ship in a Japanese yard, location grants, tax relief on profits and raw materials, government grants and varying forms of financial assistance and loans.

Concise brief summary of why governments use subsidies and their intended benefits is required.

Q4. Explain how the price of bunkers affects freight rates, and therefore the cost of imports. Use a diagram to support your answer.

This question required candidates to explain how bunker prices affect freight rates and the cost of imports, explain that the presence of high transport increases the price of the import, if high they act as if the price of the import has been increased, and that falling transport costs actually help stimulate world as they make it easier for imported goods to compete with domestically produced ones.

The best answers also explained that bunkers are the major transport cost and therefore has a major impact on the cost of shipping.

A suitable diagram was required to illustrate the answer.

Concise summary of how transport costs impact the cost of imports.

Q5. Using a diagram to support your answer, explain the effect of demand and inventory on optimal ship size.

This question required candidates to explain with the aid of an appropriate diagram the effect of demand and inventory on the optimal ship size. The best answers included the following elements, volume & Characteristics of demand inventory cost, growth of Global trade, issues pertaining to Long haul / routes , for example, European union and North American economies, higher inventory costs, smaller optimum vessel, high cargo unit prices reduce optimal ship sizes vice versa and inventory costs a part of overall cost per tonne delivered.

For oil cargoes, this would involve issues pertaining to large tanker fleets direct control of oil from field to consumer.

Finally, the Implications which included: increased vessel size meaning increased draught, beam and length and reduced flexibility.

Concise summary of optimal ship size, demand and inventory.

Q6. Analyse the effect of economies of scale in deep sea shipping and their influence on the global pattern of maritime trade.

This question involved the application of economies of scale to deep sea trade, the major trades and the pattern of maritime trade and drew some admirable essays.

A good starting point, would be the definition of Economies of Scale including:

- the cost advantages that a business obtains due to expansion.
- they are factors that cause a producer's average cost per unit to fall as the scale of output increases.
- is a long run concept and refers to reductions in unit cost as the size of a facility and the usage levels of other inputs increases

Trades: specific geographic areas, frequency of shipments

Value of inventory and Volume of business

Canals and waterways, ports and locks

The Global Pattern of Maritime Trade

The world trading consists of three great economic blocks strung out along the path of the Westline.

Western Europe with trade (imports and exports) North America and S.E Asia. Together these areas are responsible for about two-thirds of sea trade and arterial shipping routes between them.

Bulk materials in bulk vessels to the West and manufactures from S.E Asia

Container Vessels S E Asia - America and EU

A sound conclusion, economies of scale theory, deep sea trades, the trades and the patterns of maritime trade.

Q7. What is meant by a balance of trade deficit, and how can it be altered?

A balance of trade deficit occurs when the value of imports goods and services and investment income is greater than the value of the exports.

Policies to reduce a balance of trade deficit would include: devaluation, monetary policy, supply side policies: aimed at improving competitiveness of the economy e.g. privatisation and deregulation, lower Wages: which has the overall effect of reducing production costs and increased the competitiveness of the economy, protectionism: increased tariffs on imports or imposition of quotas resulting in reduced import and a stronger economy.

A concise summary of what a balance of trade deficit is and how it can be corrected.

Q8. Using either the dry cargo or tanker chartering trade, discuss how current macro economic and political activity will affect future trade by sea.

This was an opportunity for a well read and prepared student to apply economic theory and practice to the chartering business.

Selection of either - Dry/ tanker chartering Trade, brief background:

- Iron ore , coal, oil, etc

A sound narrative on prevailing macro economic factors/Political factors:

- Slow global economic growth/uncertainty and the unsettling US domestic and foreign policy positions

- current Oil prices/ environmental legislation impact on ship operations

- the overall impact of Brexit on the EU and the global economy

- overall impact of US /China trade wars on fragile world economic growth and recovery

- growing global nationalism and protectionism and impact on world economic growth and recovery

- Turkey/US Currency wars

Iran/Syria/Saudi/ Turkey/ Russia- Ukraine conflicts and their impact on Oil trade, global economic recovery and growth

- resurgent piracy activity traditional and Gulf of Guinea and impact on current and future trading activity.

- Nato, EU/USA relations multilateralism, isolationism and protectionism

A resounding and concise summary of macroeconomics and global shipping and the New World Order.