

# **THE INSTITUTE OF CHARTERED SHIPBROKERS**

## **May 2025 ICS Examiner's Report**

### **Economics of Sea Transport & International Trade (EST)**

#### **General comments**

It gives me great pleasure to present the May 2025 Economics of Sea Transport & International Trade Examiner's Report, given the consistency and quality of results year on year.

Once again, I am delighted to report that an overwhelming number of essays submitted had an introduction, a well-structured body, with arguments anchored on sound theory and practice, supported by examples from industry, and sound conclusions, and well-labelled world maps!

It is highly recommended that candidates present their essays following the standard format described above and strive to maintain this level of professionalism.

Candidates are reminded once again that additional marks are earned by those candidates who make appropriate and relevant use of maps, definitions of key terms and concepts, as well as the use of graphs and diagrams, industry-relevant examples, and practices.

To secure a pass, candidates are required to demonstrate an understanding of the key concepts and terminologies in the course, such as, tariffs, subsidies, economies of scale, opportunity cost, supply and demand model, absolute advantage, utility, , marginal costs, protectionism, , break even analysis, intra and inter industry trade, and balance of trade deficit and long run and short run costs.

Q 1. Q 1. 'Trade protections like tariffs are generally bad for world GDP'. Discuss.

This was a highly popular question, attracting very interesting and informed answers.

The best answers accurately defined the term 'tariff' and explained the negative effects of its arbitrary imposition, which was heartening given that the term appears to be a significant problem for some officials in the current US Treasury Department and administration.

The majority of the answers were in support of free trade and enumerated its vast advantages over protectionism, and included the following:

A tariff is a tax imposed on the import of a commodity/ product and may be levied in two basic ways, listing the two main types, as well as the more complex and subtle schemes that are a

combination of the two referred to above.

Other trade protections included general trade tariffs, quotas, voluntary export restraints, exchange controls, and production subsidies.

The negative impacts on the national and, by extension, global economy were also mentioned.

Tariffs' negative impact on the national and, by extension, the Global economy, market distortions, higher prices for consumers, reduction in market access to producers, loss of economic welfare, production inefficiencies, and more seriously, trade wars, and the resulting negative multiplier effects, were also highlighted.

A majority of essays concluded with a brief and concise summary.

Q2. Explain what is meant by "Price Discrimination" in Liner Trades.

This was a popular and straightforward question and required candidates to explain what is meant by 'Price Discrimination' in the Liner Trades.

Candidates were required to explain with examples what is meant by 'Price Discrimination, also called 'yield management', a pricing strategy that maximizes revenue from a fixed 'perishable' resource, and that:

- This flexible pricing facility offers benefits to both the supplier and the liner company, as the liner company charges different freight rates for different commodities, low rates for low-value commodities, and higher rates for high-value cargoes.

- that commodity price discrimination is widely practiced by liner companies, though this is more difficult since containerization has standardized the physical cargo.

- It is important to realize that discrimination does not necessarily require that a monopoly exist.
- that this kind of discrimination depends on two factors: - must be different market segments with differing own-price elasticities of demand, and that the company must be able to prevent resale to another client.

- further, that large shippers are offered lower rates for higher volumes of cargo.

Crucially, candidates who scored the highest marks listed and explained how three conditions must exist for this facility to be applicable.

Once again, the majority of essays concluded with a concise and brief summary.

Q3. Answer ALL parts of the question.

Within the grain market, identify ALL of the following:

- a. Identify **FOUR** major cargoes.
- b) give details of what they are used for, the typical cargo size or range, and the type of vessel that would be used for their carriage.

- c) Using the world map provided at the centre of your answer booklet, show and label on the map for a typical load port and country and a typical discharge port and country and the cargo route between them. Use different ports for all of these.

This was a very popular question, whose answers were a pleasure to mark. The use of the world map provided was well noted and rewarded.

Interestingly, most of the candidates answered all the aspects of the components of the question, ie, four major cargoes, use of cargoes, typical cargo size, type of vessel, typical load/discharge port , country, and cargo routes.

Q4.Explain why, the understanding of the supply demand model is critical to ship management success. Use a diagram to support your answer.

This was a very popular, straightforward, and well-answered question.

The best answers stated that:

- Supply and demand are perhaps one of the most fundamental concepts of economics and the backbone of a market economy.
- Demand refers to how much ( quantity ) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and the quantity demanded is known as the demand relationship.
- The quantity supplied refers to the amount of a certain good that producers are willing to supply at a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship.
- Price, therefore, is a reflection of supply and demand.
- basic diagram/ graphs were provided!

Again , the majority of essays had a brief and concise summary.

Q5. Using a diagram to support your answer, explain how the "break-even model" is used to determine the minimum freight rate.

This question was straightforward and required candidates to explain how the 'break-even model' is used to determine the minimum freight rate:

That:

- Break-even analysis entails the calculation and examination of the margin of safety for a company based on the revenues collected and associated costs.
- It is a function of three factors, i.e., sales volume, cost, and profit, and aims at classifying the dynamic relationship between total cost and sales volume of a company.

- for management, the utility of break-even analysis lies in the fact that it presents a microscopic picture of the profit structure of a business enterprise. T

-The break-even analysis not only highlights the area of economic strength and weakness in the firm but also sharpens the focus on specific leverages which can be operated upon to enhance its profitability

- and the mention of the four Basic Assumptions of the model, which are:

a) The vessel is taken as the basic unit of analysis.

b) costs and revenues are assumed to be linear , total variable costs rise in constant proportion to output and total revenues also rise in constant proportion to output.

c) This implies that the average revenue, or unit price, of freight per tonne of cargo is constant over the volume of output examined, and the average variable cost is also constant as output changes.

c) The market contains many ship-owners and many charterers; this means that the actual freight rate is taken as fixed, since no individual has any ability to alter it. Each individual is said to be a price taker.

Good graphs and diagrams were provided!

The majority of candidates concluded with a brief and concise summary.

Q7. Identify and explain the key demand factors that influence a lay-up decision.

A very popular and well-answered question.

The most outstanding answers included the following:

- definition of the term ' lay-up'.

- Barometer on market conditions: national, regional, and, more crucially, global.

Demand conditions, including :

- Derived demand – global commodity prices and prospects for growth and development.

- Recessionary conditions

- Prevailing freight rates

- Low productivity /Low growth prospects

- Owners' expectations of future levels of freight rates

- Economic costs, cost of money, and other investments

- high operational cost, including bunkers

- Capital & operational costs such as mortgage, insurance, crew, flag, essential maintenance/management.

The majority provided a concise summary.

Q8. Define and briefly explain all of the following topics:

This was a straightforward question requiring straightforward definitions and explanations.

- a) Protectionism
- b) Marginal Cost
- c) Equilibrium Freight Rate
- d) Free trade.