

# THE INSTITUTE OF CHARTERED SHIPBROKERS

## November 2025 ICS Examiner's Report

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

#### General comments

It is with great pleasure that I present the November 2025 Economics of Sea Transport & International Trade Examiner's Report, given the consistency and quality of results year on year.

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

It is strongly advised that candidates present their essays in the standard format outlined above and aim to uphold this level of professionalism.

Once again, candidates are reminded that additional marks are earned by those who make appropriate and relevant use of maps, define key terms and concepts, use graphs and diagrams, as well as provide relevant and contemporary industry examples and practice to support their answers.

To secure a pass, candidates are required to demonstrate an understanding of key concepts and terminologies in the course, such as, for example, price mechanism, 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, balance of trade deficit, and shipping cycles.

**Q 1. "The USA Energy Information Administration ( EIA) expects the price of crude oil to fall to below \$60 per barrel by the end of the year and average near \$50 per barrel through 2026." Discuss the likely impact of this fall on world economic growth and development**

This was a very popular question that drew very interesting and informed answers.

The best answers explained that low oil prices are expected to act as a disinflationary force, boosting consumer purchasing power through lower fuel costs and reducing business operating expenses for transportation and energy, while potentially stimulating spending on their goods and services.

That macroeconomic effects will largely be supportive of growth, but the specific impact will depend on the duration of the price drop, with sustainable low prices seen as particularly beneficial, with regard to consumer spending and inflation reduction.

Increased consumer spending

Lower inflationary pressures

Boost to GDP growth

That oil prices could deter investment in renewable energy and increase the consumption of oil-intensive products, potentially undermining long-term efficiency efforts and the development of a global sustainable energy base.

The microeconomic effect being:

Reduced business / firm costs

Substitution toward oil intensive products

The Potential Downside Effects being:

Reduced green investments

Increased oil consumption

That, while geopolitical concerns have kept oil prices elevated, analysts expect incoming supply to eventually outweigh demand, leading to lower prices once current uncertainties fade.

The Forecasted Trajectory:

Analysts forecast that crude could stay around \$63-\$64 per barrel for the rest of 2025, with some predictions expecting prices to drop further to approximately £60-\$70 per barrel by the end of the year, along with the related consequences.

A majority of the essays concluded with a brief summary.

## **Q2. Identify and examine the principal ways in which the supply of shipping services can be altered.**

This was a very popular and well-answered question.

The best answers explained that:

The supply of shipping services can be altered in two principal ways:

- altering the stock of vessels
- altering the way that the existing stock of vessels is employed

Altering the stock of vessels also includes:

- scrapping rate
- new-build deliveries rate

As well as altering the way the existing stock of vessels is used:

- altering storage numbers
- altering layups
- altering vessel speeds
- altering the balance of laden voyages
- altering time at sea to time in ports

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

**Q3. Analyse the economic effects of a tariff, drawing a demand and supply diagram to support your answer.**

Unsurprisingly, given the topical nature of this issue, this was another very popular and well-answered question.

Answers that scored the highest marks began by defining a Tariff, stating the two basic ways in which they are levied, and then proceeding to analyse the economic effects of tariffs, accompanied by a relevant diagram or graph.

Definition of Tariff:

Tariffs are a traditional means of restricting imports. These taxes are placed on imported goods, which raises their prices in the levying countries' domestic market above those in international markets.

A tariff may be levied in two basic ways:

- an ad valorem basis or
- a specific duty

The net result is that 1) domestic output has risen, 2) imports have fallen, and 3) consumers now pay a higher price.

The world price before the tariff is  $P_W$ ; at this price, domestic demand is  $Q_d$  and domestic supply is  $Q_s$ . Because of the tariff, the import price rises to  $P_w + T$ . This causes demand to contract to  $Q_{d2}$  and supply to expand to  $Q_{s2}$ . The result is that the volume of imports falls to quantity  $M$ .

Analysis of the diagram below shows the effects of an import tariff on an imported product.

The rise of the market price generates three principal effects:

1. Demand declines slightly
2. Domestic supply increases, as domestic producers supply more at a higher market price.
3. Importers suffer a decline in business.

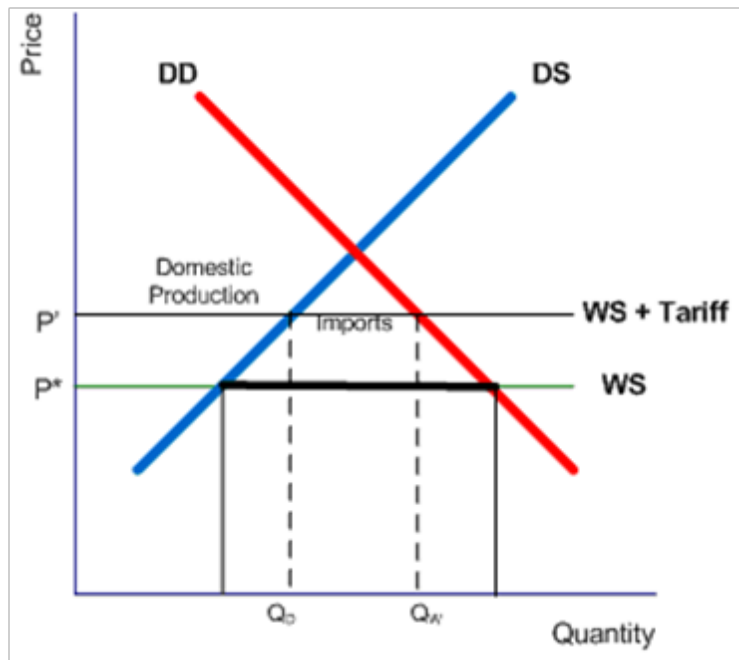
However, this does not mean that the economy is better off , protected.

Two principal effects:

1. Consumers are worse off than in a free trade position, as they pay higher prices and therefore buy less of the product being protected. Consumers are worse off and suffer from a loss of surplus.
2. Producers may appear to be better off as they have expanded. In a sense, they are, but this is false because comparative advantage assumes full employment, meaning that resources redeployed to the protected sector have been shifted from elsewhere. It stands to reason that output elsewhere in the economy has fallen.

Overall, there is a loss to consumers and an efficiency loss on the production side, as resources are redeployed inefficiently.

3. Supply side policies: aimed at improving the competitiveness of the economy, e.g., privatisation and deregulation
4. Lower Wages: which has the overall effect of reducing production costs and increasing the competitiveness of the economy
5. Deliberate STEM Education, advanced skills training and other value-added initiatives and programmes could, if implemented alongside such measures, result in sustainable long-term economic benefits to an economy.



**Q4. Explain the concept of "the production possibility frontier", as it relates to international trade and shipping. Use suitable graphs to support your answer.**

One of the least popular, but well answered questions.

The best answers explained that:

The production possibility frontier (PPF) is a curve that illustrates the variations in the amounts that can be produced of two products if both depend upon the same finite resource for their manufacture

- It shows how much an economy can produce given existing resources, and the different choices that an economy faces.

- plays a crucial role in economics and can be used to demonstrate the point that any nation's economy reaches its greatest level of efficiency when it produces only what it is best qualified to produce and trades with other nations for the rest of what it needs

Absolute Advantage: Ricardian Trade Theory: argues that a country will export products that it produces more cheaply than any other country and import those products which it produces less cheaply than elsewhere

Determining how countries exchange goods produced by comparative advantage ("the best for the best") is the backbone of international trade theory. This method of exchange via trade is considered an optimal allocation of resources.

For example, increasing the output of goods will have an opportunity cost of fewer services or consumer goods for an economy

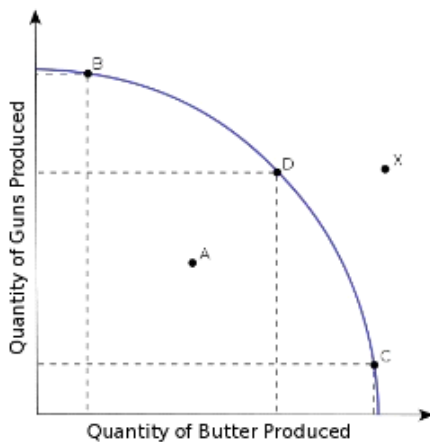
Reallocating scarce resources from one product to another involves an opportunity cost; a choice an economy faces is between capital goods (investment) and consumer goods

If more resources are devoted to capital goods (e.g., building new factories), then, in the short term, consumption will decline. In the long term, however, the nation could/ should aim to become more productive and cost-competitive, engage in trade and benefit from the gains thereof.

A majority of essays concluded with a concise conclusion.

Supporting diagram:

## Production Possibility Frontier



**Q5. Explain what is meant by a 'balance of trade' deficit and how it can be corrected.**

This was a popular question and attracted very interesting, well-informed answers.

The best answers explained that:

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

Policies to reduce a balance of trade deficit include:

1. Devaluation
2. Monetary policy
3. Supply side policies: aimed at improving competitiveness of the economy e.g. privatisation and deregulation
4. Lower Wages: which has the overall effect of reducing production costs and increasing the competitiveness of the economy
5. Protectionism: increased tariffs on imports or imposition of quotas resulting in reduced imports and a stronger economy.

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

**Q6. Using a graph to support your answer explain the relationship between long run costs and output.**

The best answers defined the two concepts and explained that:

Definition: Long-run cost

Defined as the period of time in which it is possible to vary all input quantities used in producing a given level of output. In the long run, fixed costs do not exist. This is because every element used in the production process can be varied.

Long-run average costs may fall as output levels rise

Long-run average costs may remain unchanged as output levels change

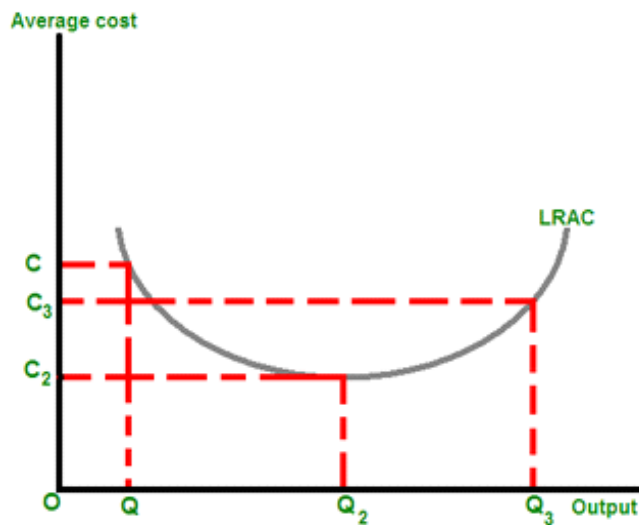
Long-run average costs may rise as output levels rise

Over a long period, the size of the fleet can therefore be increased or reduced. The long run enables shipping companies to expand and scale their operations by purchasing or bringing in larger quantities of all inputs. Thus, in the long run, all factors can be varied.

The long-run cost-output relations, therefore, imply the relationship between the total cost and the total output. In the long run, the cost-output relationship is influenced by the law of returns to scale, which describes the relationship between variable inputs and output when all inputs are increased in the same proportion.

A majority of essays concluded with a concise conclusion.

Supporting diagram/graph



**Q7. Using a diagram to support your answer, explain how the price of bunkers affects freight rates as well as the costs of imports.**

This was a popular question and attracted very good answers. The highest scoring answers explained that:

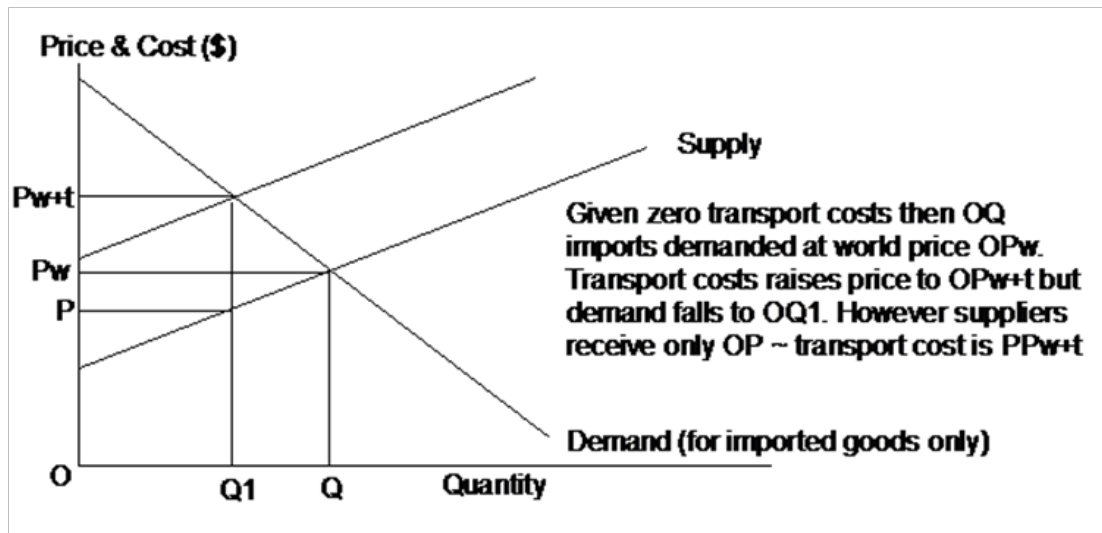
The presence of transport costs creates a potential barrier to trade. Transport costs raise the price of imported goods, as a tariff does, so their size and trends influence how the market develops. In international trade, this would make one source more attractive than another.

Surging bunker costs are a result of increased oil prices and impact transport costs

An increase in transport costs would cause, among other things:

- major slow down in seaborne trade
- fundamental realignment in trade patterns
- freight sensitive low value cargoes are first casualties
- containerisation makes transport costs more vulnerable to fuel-cost swings, every one-dollar rise in oil prices translates to 1% rise in transport costs

Supporting diagram



A majority of essays concluded with a concise conclusion.

**Q8. Define and briefly explain Four of the following topics:**

**a) Price mechanism**

**b Comparative Advantage**

**c) Economies of scale**

**d) Balance of Payments**

**e) Shipping Cycles**

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

a) Price mechanism refers to the way in which price determines the allocation of resources and influences the quantity supplied and the quantity demanded of goods and services. The price mechanism is part of a market system that functions in various ways to match buyers and sellers, serving as an incentive, a signal, and a rationing system for resources. A price mechanism uses announced buy and sell prices. When two parties wish to engage in trade, the seller announces the price he is willing to accept (the selling price), and the purchaser announces the price he is willing to pay (the offer price).

b) Comparative Advantage: refers to the ability of a person or a country to produce a particular good at a lower marginal cost and opportunity cost than another person or country. It is the ability to produce a product most efficiently, given all the other products that could be produced.

c) Economies of scale are cost advantages reaped by companies when production becomes efficient. Companies can achieve economies of scale by increasing production and lowering costs. This happens because costs are spread over a larger number of goods. Costs can be both fixed and variable.

d) Balance of payments.  
The balance of payments, also known as the balance of international payments of a country, is the record of all economic transactions between the residents of the country and the rest of the world within a particular period. These transactions are between individuals, firms, and government bodies.

e) Shipping Cycles

A cycle is “an interval of time during which one sequence of a regularly recurring sequence of events is completed”. Market cycles are the driving force behind shipping investment and chartering. They are the heartbeat of the shipping market, pumping cash in and out of the business.

There is a widely held “rule of thumb” that they last seven years. The fact that the cycles are not regular makes it even more important to understand them. The practical importance of cycles cannot be understated. For ship-owners, it offers an incentive to “play the cycle”, earning premium revenue when the market is high and, in an ideal world, fixing the ships on time charter or selling out just before the market moves into a trough.