Maritime Economics | Revision Notes

BIG IDEA

Freight rates signal how scarce shipping capacity is. Demand can change faster than the fleet. In the short run, owners adjust how they use the ships they have. When demand stays strong, they must decide how much freight-rate risk and capital exposure to take on.

Practice essay: a dry bulk market under pressure

A dry bulk trade starts sourcing cargo from farther away, even though the tonnes shipped stay the same. Later, a slowdown cuts cargo volumes. Sketch the shipping market and explain how each change could affect tonne-mile demand and the freight rate. Compare what can happen when spare tonnage is available and when most ships are already busy.

How might owners adjust sailing speed, lay vessels up or reactivate them? If an owner buys a vessel already trading in the same market, what changes for the firm and what changes for the market?

Suppose the strong market lasts. Choose how you would employ or expand your fleet and explain what you gain and which risk you take on.

What a strong answer connects

- Trade volumes and haul lengths → tonne-mile demand → freight rates and transport output.
- Spare tonnage allows more transport work. Near full utilization, a similar demand increase can move rates sharply.
- Speed changes voyage frequency and fuel burn. Lay-up takes effective capacity out of service and reactivation restores it over time. A second-hand sale transfers ownership and changes market supply only if it changes deployment or utilization.
- In a tight market, compare earning today’s spot rates, securing forward income and committing capital. Explain the downside if market conditions change.

Practice questions | Cargo and capacity

1. A grain importer considers larger shipments that arrive less often. What can offset a lower ocean freight cost per tonne?
    - A. Lower handling cost per tonne
    - B. Lower charter hire
    - C. Higher inventory holding costs
    - D. A lower terminal tariff
2. A port eliminates a recurring two-day wait. The ships, parcels and routes are unchanged. What is the most direct result?
    - A. More transport work can be supplied per period.
    - B. The physical fleet gains deadweight.
    - C. The average haul increases.
    - D. Shippers automatically demand more tonnes.

Practice questions | Contracts and cash

3. A shipowner fixes a vessel on a standard time charter. Who typically pays the crew and who pays for fuel?
    - A. The charterer pays for both.
    - B. The charterer pays for crew and the owner pays for fuel.
    - C. The owner pays for both.
    - D. The owner pays for crew and the charterer pays for fuel.
4. An owner reports a profit but cash falls after a scheduled payment to the bank. Which part of the payment reduces cash without directly reducing accounting profit?
    - A. Interest on the loan
    - B. Repayment of principal
    - C. A bank service fee for the period
    - D. A late payment charge recognized in the period