

Understanding Basics of Shipping Market Supply & Demand Model

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<http://www.ics.org.hk/doc%5Cshpgmarkets.pdf>

READING TEXT 1

WHY SHIPS?

The **demand** for ships is derived from the demand for the goods that they carry; that is why economists refer to **merchant shipping** as a derived demand. The **customer**, who is usually but not always, in a different country from the producer of the goods, wants those goods to be delivered to him safely and at minimum cost. Note that the word 'quickly' was not included with the other two requirements i.e. safely and at minimum cost. Speed is certainly important for some **commodities** and for these there are other forms of transport such as **air freight** which is ideal for small but highly valuable items of cargo. But air freight is very costly so that it would be ridiculously expensive to transport, say, coal or iron ore by air even if it were possible.

Sea transport may be considered a relatively slow but inexpensive form of transport and because modern ships are capable of carrying hundreds of thousands of tonnes, the **cost per tonne/ kilometre** adds only a small amount to the cost of the commodity being carried. This enables **bulk materials** to be moved half way around the world and still arrive **at an economic price**. That is why by far the greatest **volume of goods** involved in **international trade** is carried by sea.

Supply the verb and its appropriate form

- The demand for ships is derived from the demand for the goods that they _____; that is why economists _____ to merchant shipping as a derived demand. The customer, who is usually but not always, in a different country from the producer of the goods, wants those goods to be _____ to him safely and at minimum cost. _____ that the word 'quickly' was not included with the other two requirements i.e. safely and at minimum cost. Speed is certainly important for some commodities and for these there _____ other forms of transport such as air freight which is ideal for small but highly valuable items of cargo. But air freight is very costly so that it would be ridiculously expensive to transport, say, coal or iron ore by air even if it _____ possible.
- Sea transport may be _____ a relatively slow but inexpensive form of transport and because modern ships are capable of _____ hundreds of thousands of tonnes, the cost per tonne/ kilometre _____ only a small amount to the cost of the commodity being carried. This enables bulk materials to be _____ half way around the world and still _____ at an economic price. That is why by far the greatest volume of goods involved in international trade is _____ by sea.

Complete the following sentences

- The demand for ships is derived from.
- That is why economists refer to merchant shipping as
- The customer is usually but not always, in a different
- The customer wants those goods to be delivered to him
- Air freight which is ideal for
- However, air freight is so that it would be
- Sea transport may be considered
- Sea transport is a cheap mode of transport because modern ships are
- capable of
- The cost per tonne/ kilometre adds only a small amount to
- the cost
- This enables bulk materials to be moved half way around the world and still arrive
- That is why by far the greatest is carried by sea.

Questions:

- 1. What does demand for ships depend on?**
- 2. How does the producer want the goods to be delivered?**
- 3. Why is air freight not competitive to sea transport and under what conditions?**
- 4. Which adjectives best describe sea transport?**
- 5. What is the ratio between the amount of cost for of the commodity vs the cost per tonne/kilometre?**

READING TEXT 2

AN INTRODUCTION TO THE THEORY OF TRADE

The movement of cargo by sea comes about as a result of one party – the **exporter** - selling a commodity to another party - the **importer** - this sale from one to another is, of course, referred to as **trade**. You will often hear the exporter referred to as the consignor or **shipper**. The importer may also be referred to as the **consignee** or as the receiver.

The first obvious question is why should “A” buy goods from “B”? The immediate and equally obvious answer is that “A” needs or wants what “B” produces. This comes about due to the **uneven distribution of resources** throughout the world. Note that the reference was to distribution of resources not simply the distribution of commodities.

For example, Great Britain, once a major exporter of coal still has substantial **reserves** but only a very small annual production because **extraction** is uneconomic. Australia also has coal and although the two countries are more than 10,000 nautical miles apart, Australia is able to sell coal to Britain.

READING TEXT 3

- Before dealing with this apparent paradox, let us concentrate first upon the implications of '**resources**', there are two more expressions commonly used by economists that need to be mastered when considering the theory of trade. The first is **absolute advantage**, which refers to a commodity that one country has in exportable quantities but which another country has none. Examples could be bananas or coffee, these cannot be produced in Northern Europe whilst they are **in abundance** in the West Indies and Brazil. Such an absolute advantage is the result of climate. Absolute advantage may also come about through geology and a good example is copper that is mined in several parts of Southern Africa whereas many countries that need it to produce goods have no such **mineral deposits** of their own.

VOCABULARY EXERCISES

- The movement of cargo by sea comes about as a result of one party – the _____ - selling a commodity to another party - the _____ - this sale from one to another is, of course, referred to as _____. You will often hear the exporter referred to as the _____ or shipper. The importer may also be referred to as the consignee or as the _____.
-
- The first obvious question is why should “A” _____ goods from “B”? The immediate and equally obvious _____ is that “A” needs or wants what “B” _____. This comes about due to the uneven distribution of _____ throughout the world. Note that the reference was to distribution of resources not simply the distribution of _____. For example, Great Britain, once a major exporter of coal still has substantial reserves but only a very small annual production because extraction is _____. Australia also has coal and although the two countries are more than 10,000 nautical miles _____, Australia is able to sell coal to Britain.
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- Before _____ with this apparent paradox, let us concentrate first upon the implications of ‘resources’, there are two more expressions commonly used by economists that need to be mastered when considering the theory of _____. The first is _____, which refers to a commodity that one country has in exportable quantities but which another country has none. Examples could be bananas or coffee, these cannot be produced in Northern Europe whilst they are in _____ in the West Indies and Brazil. Such an absolute advantage is the result of _____. Absolute advantage may also come about through geology and a good example is _____ that is mined in several parts of Southern Africa where as many countries that need it to produce goods have no such mineral _____ of their own. Thus, in the case of absolute advantage, the resource is simply the physical availability of the _____. Other factors are, however, involved which lead to _____. In simplistic terms this means where one country produces a commodity more _____ or in a more desirable form than another.
- In addition to climate and geology there are other factors of production that create a _____ advantage. These factors tend to fall into four categories namely Land, Labour, Capital and _____. No two countries have exactly the same resources and few, if any, countries can be considered as being _____. For example, even with the wide-ranging natural resources that are present in a country like South Africa, the _____ of appreciable quantities of oil prevents the country being self-sufficient.
- Over a period of time, countries have specialized in those _____ where they have a comparative advantage. This _____ is reflected in the trend in international trade. In recent years, growth in _____ has been strongly supported by a substantial shift in global production capacity to Asia, in particular China. Consequently, China today, with its _____ appetite for iron ore to fuel its steel production, is the single most important factor that is _____ the freight markets to heights never seen before.

Mark separation spaces between the words and sentences in the following paragraph:

The movement of cargo by sea comes about as a result of one party—the exporter—selling a commodity to another party—the importer—this sale from one to another is, of course, referred to as trade you will often hear the exporter referred to as the consignor or shipper the importer may also be referred to as the consignee or as the receiver.

Read the text once again and answer the following questions:

- How can you define the term „trade“?
- What can the exporter and imported often be referred to as?
- Why should “A” buy goods from “B”?
- Explain the term „uneven distribution of resources by giving an example
- What does the term „absolute advantage“ refer to?
- Explain the two examples of absolute advantage

Supply the missing grammatical word (guessing from the context)

MODELS OF TRADE FLOWS- Reading text 4

There are two 'traditional explanations' of trade flows, both concentrating ___ the supply side of the economy. They essentially argue ___ trade flows are driven ___ relative costs only. The models try to explain ___ one country exports certain commodities and imports _____, different commodities in exchange.

It implies _____ one country has a cost advantage relative ___ the other country, for one industry. Thus Saudi Arabia is abundant in oil, _____ can be extracted cheaply because its fields are on land, easily drilled and extracted, ___ moved to the coast for export. It has a cost advantage in oil production. On ___ other hand, Japan has a cost advantage in car production, ___ both can trade. Note that this is Inter-industry trade, ___ intra-industry trade.

UNDERSTANDING skills

- Trade flows are driven by
- In any type of trade one country and the other
- This implies that one country has
- In SA exporting oil is cheap because
- Therefore SA has a cost in
- SA and Japan can trade (exchange goods) because... .. .
- Explain the terms: *inter*-industry and *intra*-industry.

VOCABULARY development

Give the synonyms for:

- *argue, costs, commodities, imply, abundant*

Reading text 5

Thus, in the case of absolute advantage, the resource is simply the physical availability of the commodity. Other factors are, however, involved which lead to comparative advantage. In simplistic terms this means where one country produces a commodity more cheaply or in a more desirable form than another.

In addition to climate and geology there are other factors of production that create a comparative advantage. These factors tend to fall into four categories namely Land, Labour, Capital and Enterprise. No two countries have exactly the same resources and few, if any, countries can be considered as being self-sufficient.

Thus, in the case of _____, the resource is simply the physical availability of the commodity. Other factors are, however, involved which lead to _____. In simplistic terms this means where one country produces a commodity _____ or in a more desirable form than another.

In addition to climate and geology there are other _____ that create a comparative advantage. These factors tend to fall into four categories namely Land, _____, Capital and _____. No two countries have exactly the same resources and few, if any, countries can be considered as being _____.

Supply the missing terms

For example, even with the wide-ranging natural resources that are present in a country like South Africa, the lack of appreciable quantities of oil prevents the country being self-sufficient. Over a period of time, countries have specialized in those products where they have a comparative advantage. This specialization is reflected in the trend in international trade.

In recent years, growth in demand has been strongly supported by a substantial shift in global production capacity to Asia, in particular China. Consequently, China today, with its voracious appetite for iron ore to fuel its steel production, is the single most important factor that is driving the freight markets to heights never seen before.

Complete the following sentences

For example, even with the wide-ranging natural resources that are present in a country like South Africa, the lack of appreciable quantities of oil prevents

Over a period of time, countries have specialized in those products where

This specialization is reflected in

In recent years, growth in demand has been strongly supported by, in particular China.

Consequently, China today, with its voracious appetite for iron ore to, is the single most important factor that is driving the freight markets to heights never seen before.

READING TEXT 6

ABSOLUTE ADVANTAGE

This is sometimes called **Ricardian Trade**, after David Ricardo, the first economist to develop the theory. The theory basically argues that a country will **export** those commodities which it produces more cheaply than any other country, and in exchange, **import** those products which it produces less cheaply than elsewhere. The obvious examples of 'absolute advantage' would be a country's natural endowments of **raw materials** and **natural resources**.

In Saudi Arabia's case, as mentioned above, an absolute advantage exists in oil production, as it does in other Middle East economies which are similarly blessed. Brazil and Australia are endowed with iron ore, Japan has none.

A natural trade is for Japan to import these essential **manufacturing** raw materials as it has no such materials itself.

One question that arises in this theory is this. Suppose an economy say economy A, was absolutely more efficient in production in all goods, compared to another economy (B). If Ricardo's doctrine is correct, it would appear that economy A should never trade with B, since it is capable of producing both products more cheaply than B. Since, in real life, it is often argued that Japan, say, or the US, is capable of producing all goods more cheaply than the UK say, then why should these two economies trade?

It turns out that Ricardo's theory is flawed. Absolute advantage is not required to generate trading opportunities. The major traditional theory of international trade is known as the theory of comparative advantage, which is discussed in detail below.

VOCABULARY 4 (DICTIONARY WORK)

- Find and write down the sentences containing the words: *endow, argues, endowments, blessed, arises, flawed*.
- Then look up an English dictionary to find their part of speech, synonyms, and their meaning suitable in the text above.
- Offer the best Croatian translation equivalents for these words.
- Then re-phrase these sentences.

UNDERSTANDING (writing and speaking activities)

- David Ricardo developed
- Ricardian trade theory argues that
- The absolute advantage of Saudi Arabia and Middle East is whereas that of Brazil is ...
- The absolute advantage of Croatia is
- Ricardo's theory of absolute advantage in trade is flawed because
- Trading opportunities are not the requirement for
- The major traditional theory of international trade is known as

**The following sentences have been jumbled.
Put them in the order that makes sense.**

| | | |
|---|---|--|
| The theory basically argues that a country will export those commodities which it produces more cheaply than any other country, and in exchange, import those products which it produces less cheaply than elsewhere. | 1 | |
| Brazil and Australia are endowed with iron ore, Japan has none. | 2 | |
| The absolute advantage theory is sometimes called Ricardian Trade, after David Ricardo, the first economist to develop the theory. | 3 | |
| The obvious examples of ‘absolute advantage’ would be a country’s natural endowments of raw materials and natural resources. | 4 | |

READING TEXT 6

COMPARATIVE ADVANTAGE

The doctrine of comparative advantage is the most widely known theory of **trade flows**. The idea behind it is best understood with the aid of an example.

Suppose that you are a computer whiz, and also good at decorating and painting. In fact, you are better at these two activities than your neighbour, Fred. Fred is not too good at computing, but very good at decorating and painting, though not as good as you.

Initially, both you and Fred spend equal amounts of time in both activities. But if you **trade**, both can gain. This is because Fred is **comparatively good** at painting and decorating; if he concentrates on that activity, while you concentrate on computing, you can trade the service to each other **and both would be better off**.

This gain arises from the fact that resources have been *reallocated* towards their most efficient uses; as a result, more total **output** (computer services and paint/decorating) is produced, to be reallocated between the two people. In reality, comparative advantage is nothing more than the extension of Adam Smith's principle of the **division of labour** to trade between countries. Each country will tend to specialise in producing those products which it is relatively good at producing, and *trade* some of the increased output from the expanded **sector for** imports which replace the output lost from the shrinking, less productive sector.

VOCABULARY 6 (collocations: adv+adj; adj+noun; verb+noun)

Supply the missing word and decide which type of the collocation it makes with the neighbouring word:

The doctrine of _____ advantage is the most _____ known theory of trade flows. The idea behind it is best understood with the aid of an example. Suppose that you are a computer whiz, and also good at decorating and painting.

In fact, you are better at these two activities than your neighbour, Fred. Fred is not too good at computing, but very good at decorating and painting, though not as good as you.

Initially, both you and Fred spend _____ amounts of time in both activities. But if you trade, both can gain. This is because Fred is _____ good at painting and decorating; if he concentrates on that activity, while you concentrate on computing, you can trade the _____ to each other and both would be better off

- This gain arises from the fact that resources have been _____ towards their most efficient uses; as a result, more total output (computer services and paint/decorating) is _____, to be reallocated between the two people. In reality, comparative advantage is nothing more than the extension of Adam Smith's principle of the division of labour to trade between countries. Each country will tend to specialise in producing those products which it is relatively good at producing, and trade some of the increased output from the expanded sector for imports which replace the _____ lost from the shrinking, less _____ sector.

UNDERSTANDING Skills

- The doctrine of comparative advantage is the most widely known
- The theory of comparative has been explained in the text using the example of (look up for the word „whizz“ in the dictionary!)
- How can both you (a computer whiz) and Fred (who is good at painting and decorating) gain?
- Look up the word „output“ in your dictionary and decide on its meaning and use in the text.
- The gain arises from the fact that resources have been
- Therefore comparative advantage is just an extension of the principle of
- Each country will tend to specialise in producing those products which and trade for imports which replace the output lost from the shrinking, less productive sector.

VOCABULARY

- In the text above find the words (verbs, noun, adjectives, phrases) describing the relationship of growth and fall of trade (e.g. *have grown ...*)
- Look up the meaning and use of following words in the dictionary:
 - *Cater for, GDP, impact, WTO, fade away, merchandise, cornerstone, procurement, output, shrinking*

Supply the missing word (verb) and put it in the right place in the text below:

- The doctrine of comparative advantage the most widely known theory of trade flows.
- The idea behind it best understood with the aid of an example. that you are a computer whiz, and also good at decorating and painting.
- In fact, you better at these two activities than your neighbour, Fred.
- Fred not too good at computing, but very good at decorating and painting, though not as good as you.
- Initially, both you and Fred equal amounts of time in both activities.
- But if you, both can gain.
- This is because Fred comparatively good at painting and decorating; if he on that activity, while you concentrate on computing, you can trade the service to each other and both would better off.
- This gain from the fact that resources have been towards their most efficient uses; as a result, more total output (computer services and paint/decorating) is produced, to be between the two people. In reality, comparative advantage nothing more than the extension of Adam Smith's principle of the division of labour to trade between countries.
- Each country will tend to in producing those products which it is relatively good at producing, and some of the increased output from the expanded sector for imports which the output lost from the shrinking, less productive sector.

Supply the missing economic and shipping term you have learnt in this text

COMPARATIVE ADVANTAGE

The doctrine of _____ is the most widely known theory of trade flows. The idea behind it is best understood with the aid of an example.

Suppose that you are a computer whiz, and also good at decorating and painting. In fact, you are better at these two activities than your neighbour, Fred. Fred is not too good at computing, but very good at decorating and painting, though not as good as you.

Initially, both you and Fred spend equal amounts of time in both _____. But if you trade, both can _____. This is because Fred is comparatively good at painting and decorating; if he concentrates on that activity, while you concentrate on computing, you can trade the _____ to each other and both would be _____. This gain arises from the fact that _____ have been reallocated towards their most efficient uses. As a result, more total output (computer services and paint/decorating) is produced, to be _____ between the two people. In reality, comparative advantage is nothing more than the extension of Adam Smith's principle of the _____ to trade between countries. Each country will tend to specialise in producing those _____ which it is relatively good at producing, and trade some of the increased _____ from the expanded _____ for imports which replace the output lost from the shrinking, less _____ sector.

GRAMMAR - Supply the missing preposition or conjunction

The doctrine of comparative advantage is the most widely known theory ___ trade flows. The idea ___ it is best understood ___ the aid of an example.

Suppose that you are a computer whiz, ___ also good at decorating and painting. In fact, you are better ___ these two activities ___ your neighbour, Fred. Fred is not too good ___ computing, but very good at decorating and painting, ___ not as good ___ you.

Initially, both you and Fred spend equal amounts of time ___ both activities. But ___ you trade, both can gain. This is because Fred is comparatively good at painting and decorating; if he concentrates ___ that activity, - ___ you concentrate on computing, you can trade the service ___ each other and both would be better ___. This gain arises ___ the fact ___ resources have been reallocated ___ their most efficient uses; ___ a result, more total output (computer services and paint/decorating) is produced, to be reallocated ___ the two people.

___ reality, comparative advantage is nothing more ___ the extension of Adam Smith's principle of the division of labour ___ trade between countries. Each country will tend to specialise ___ producing those products ___ it is relatively good at producing, and trade some of the increased output from the expanded sector ___ imports which replace the output lost ___ the shrinking, less productive sector.