Background

- Ocean Carriers is known as a shipping company who owns and operates capsize carrier that carries dry bulk around the globe

- It mainly transports iron ore and coal

- Customers charter the ship by paying the daily hire rate

Problem

In early beginning of 2003, Ocean Carriers’ ships could not meet the demand of charter

Assumption 1

Ocean Carriers was a US firm and needed to pay 35% taxes.

Assumption 2

Company was based in Hong Kong and exempted from taxation on profits.
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Assumption 2

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Do you expect daily spot hire rates to increase or decrease next year?
- Daily hire rate determined by supply and demand of shipping capacity
- Exhibit 2: 2 millions of deadweight tons are over 24 years old and they will be scrapped
- Decrease because of the availability of the capsizes
What factors drive average daily hire rates?