2002 HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Section II

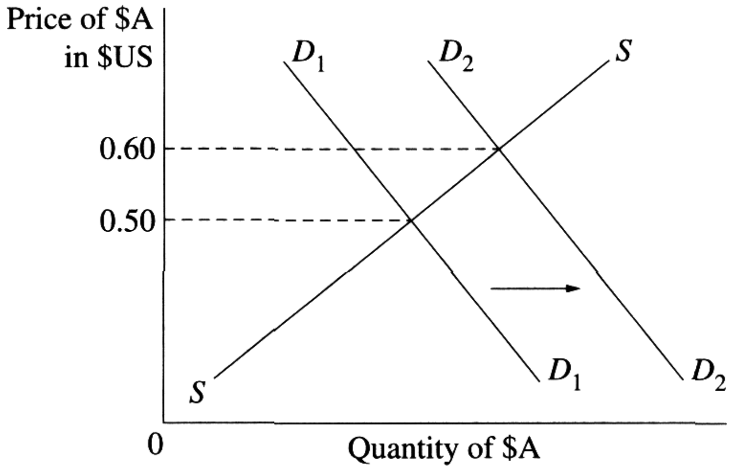
40 marks
Attempt Questions 21–24
Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided.

Marks

Question 21 (10 marks)

The diagram shows information about the demand and supply of Australian dollars ($A) in terms of United States dollars ($US). Both countries have flexible exchange rates.



(a) State the economic term given to the movement of the exchange rate of the $A from $US0.50 to $US0.60. **1**

Exchange Rate diffential

(b) Outline TWO causes of an increase in demand for $A. **2**

• Increase in investment for Australian businesses

• A Global boom in the world economy.

Question 21 continues on page 10

Marks

Question 21 (continued)

(c) Briefly explain how the Reserve Bank could intervene in the foreign exchange market to influence the exchange rate of the $A. **3**

The Reserve Bank controlls all the money. The reserve bank also has othe couencies. It could exchange these other currencies into Australian $ which will push the demand for Australian dollar up and therefor it will increase the exchange rate.

(d) Discuss TWO economic benefits to Australia of an appreciation of the $A. **4**

· An economic benefit of an appreciation of the $A is that it will increase the international competitiveness.

· Another economic benefit would be that it will reduce the ~~current~~ Current Account Deficit.

End of Question 21