

2002 HIGHER SCHOOL CERTIFICATE EXAMINATION
Economics

Section II

40 marks

Attempt Questions 21–24

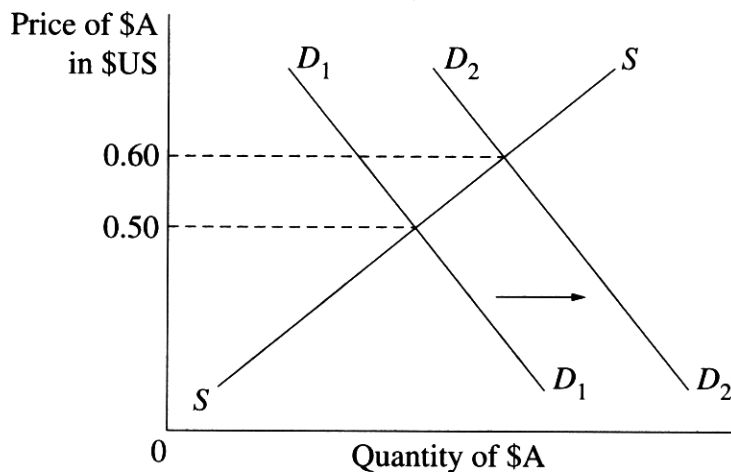
Allow about 1 hour and 15 minutes for this section

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

.....Increase in value.....

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

1.Increased interest rates.....

2.Increased economic growth.....

.....
.....

Question 21 continues on page 10

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 could increase interest rates and therefore create and increase in prices influencing the demand for \$A therefore influencing the exchange rate.

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

Import become cheaper therefore consumers have a greater disposable income.
 appreciation of the dollar means there is greater demand and that means economic growth is increasing.

End of Question 21