2002 HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Section II

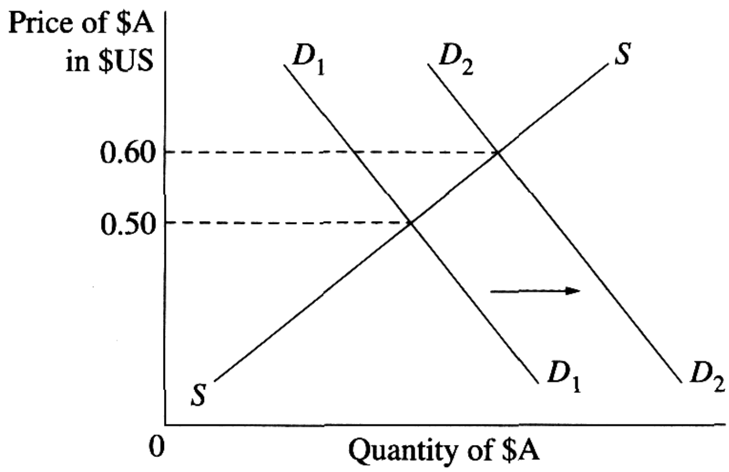
40 marks
Attempt Questions 21–24
Allow about 1 hour and 15 minutes for this section

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**

appreciation

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

a recession in australias economy may bring the demand for the $A down. a disaster might take place forcing outside economies to re-consider investing in Australia.

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 may higher or lower the interest rates of the australian economy to entice outside economies to invest in ours. The Reserve bank can also control australias exchange rate, affecting the way people spend.

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

If the $A should appreciate people would be more willing to spend. therefore ~~the~~ in turn, contributing towards the growth of the economy. Jobs may arise too, making the unemployment rate lower, again, people would be spending more.

End of Question 21