

2002 HIGHER SCHOOL CERTIFICATE EXAMINATION
Economics

Section II

40 marks

Attempt Questions 21–24

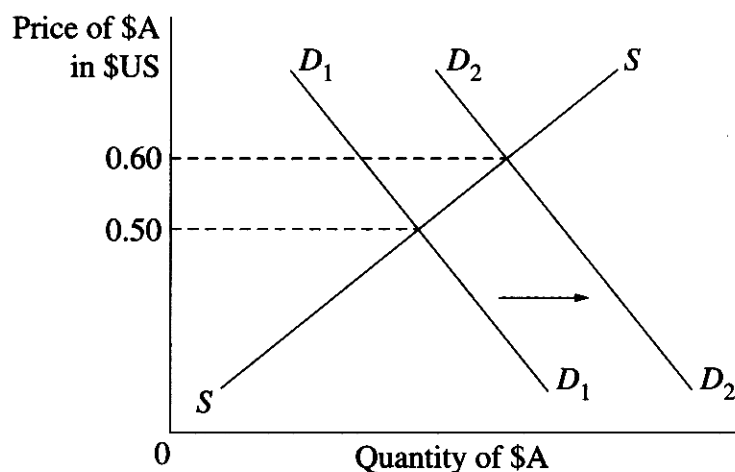
Allow about 1 hour and 15 minutes for this section

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 in the value of \$A

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

International confidence in Australian economy, leading to overseas investments into Australia

Increased demand for Australian goods and services, meaning ^{Australian} export prices rise due to increased overseas demand.

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

Slow economic growth by raising interest rates on overseas investments into Australia, making it less attractive to invest in Australia.

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

International confidence in Australian economy will rise. This will lead to higher overseas investment in Aust and an increased level of integration between Australia and the world.

Export revenue will rise as exports become more expensive for overseas investors international countries.

End of Question 21