**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.

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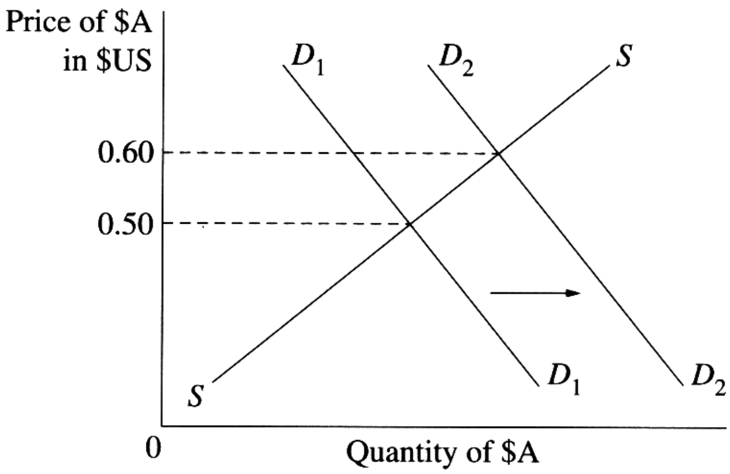
**Marks**

**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**

Shift in the demand curve to the right.

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

An increase in demand for the Australian Dollar can be:

- Increased demand for Australian products and services
- Strong economic growth stimulating foreign investment

**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 can adjust the supply of the Australian Dollar on world currency markets. This can raise and lower the value of the Australian Dollar accordingly. This can be done by the selling of government bonds, which reduces the amount of available cash in the economy. This increases the value of the dollar, because it is more scarce. To lower the value of the Australian dollar, the government can sell the bonds to increase the availability of cash.

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

An appreciation in the Australian Dollar is beneficial to Australia because:-

- It allows Australians to have increased purchasing power within the world market;
- An appreciation in the Australian dollar will cause an decrease in interest rates.

**End of Question 21**