2002 HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Section II

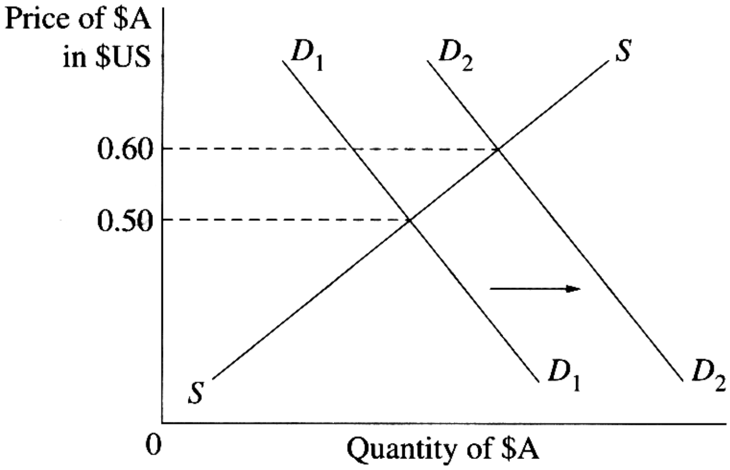
40 marks
Attempt Questions 21–24
Allow about 1 hour and 15 minutes for this section

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 of $A

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

If the value of the $A decreases, then more foreign investors want to buy $A ∴ ↑ D $A.
Also interest rates in Australia may be "healthier" to a foreign investor ∴ ↑ D for $A due to i rates.

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**

It could intervene by buying & selling of second hand securities in Aust. to ↑ amount of available funds for govt. Investment in foreign nations can then relate back to Aust. with the er ↑ or ↓ depending on the foreign exchange market values.

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

When the value of $A ↑, the purchasing power of our '$' is much greater. This results in Australia paying less for the same volume of imports and other countries pay more for same amount of exports.

Also, when the $A ↑, our economy as a whole becomes more efficient & competitive within the global workplace & ∴ greater π for firms and the public.

End of Question 21