2002 HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Section II

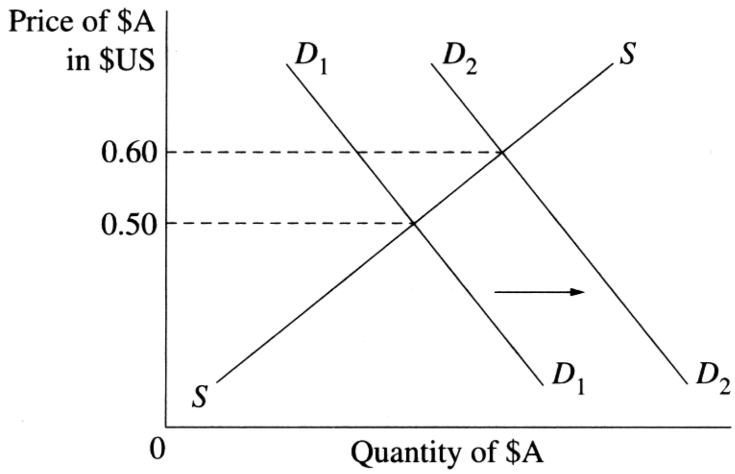
40 marks
Attempt Questions 21–24
Allow about 1 hour and 15 minutes for this section

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**

★ Tourism boost in Australia → more tourists travelling to Australia → ↓ supply of $A → ↑ demand for $A
★ loss of confidence in the $US may cause more people to want $A → ↓ supply of $A → ↑ demand

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 alter the cash rate in order to influence the rate of the $A. This is done by the reserve bank announcing the are going to either increase or decrease the cash rate, and people decide whether or not to invest in $A which affects the supply & demand for the $A and this the alters the exchange rate.

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

* More people want to invest in $A or chose to travel to Australia. When in Australia people will spend money and this boosts the economy. Businesses are making more money & therefore there is more money to spend → economic growth

* An appreciating $A means our money is worth more in terms of overseas currency. When the $A is appreciating Australia is able to get more for it's money overseas ie purchase more

End of Question 21