2002 HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

Section II

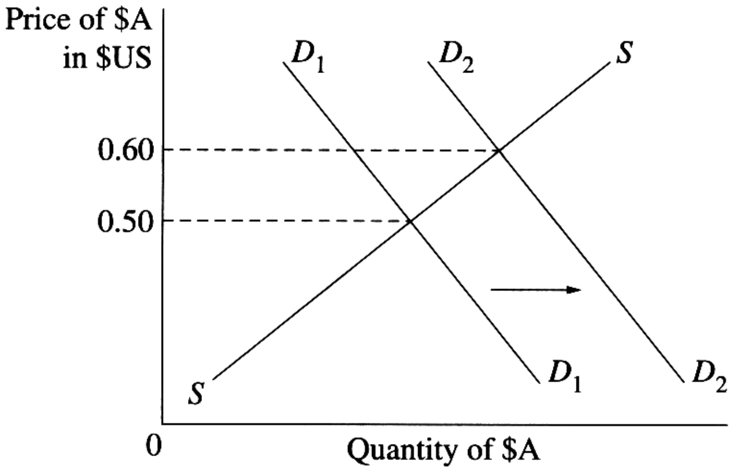
40 marks
Attempt Questions 21–24
Allow about 1 hour and 15 minutes for this section

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**

appreciate or increase

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

~~[illegible]~~

* inflation rise

* increase in overseas investment

As Australian stockmarket appreciates

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 of Australia has direct access to Australia's cash flow, they can influence the exchange rate by adding cash to the system to cause an inflation, ~~[illegible]~~ to try elemenate recession, or take cash out during a high period of inflation. As these could influence Australia's foreign currency and sharemarcet

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

* with the Australian dollar in an appreciation overseas investments become alot cheaper to Australians as they have ~~[illegible]~~ more money to spend due to cheap buys
* Also importing and exporting for businesses increase as profits rise as the ~~[illegible]~~ notion of buying bulk cheap from overseas and selling products at a new equilibrium benefits.
* And also Australia benefits ~~[illegible]~~ as Australia rises in shares aswell as the stockmarket.

End of Question 21