

**2002 HIGHER SCHOOL CERTIFICATE EXAMINATION
Economics**

Section II

40 marks

Attempt Questions 21–24

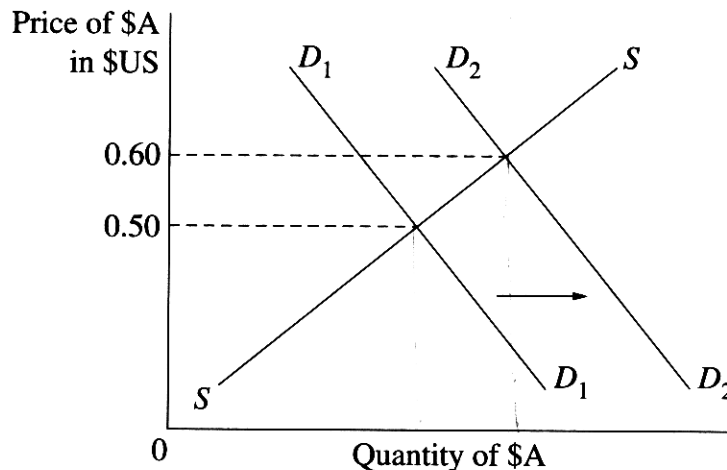
Allow about 1 hour and 15 minutes for this section

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 the Australian dollar.....

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

Demand for Exports from Australia has increased causing a higher demand for the Australian dollar. Foreign Direct Investment may have increased causing higher economic growth and higher competitiveness in the global economy.

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

Reserve Bank intervention such as 'dirtying the float' can have little effect on the exchange rate due to the size of the foreign exchange market. It is possible for the Reserve Bank to purchase a large amount of Australian dollars to increase the demand for Australian dollars and hopefully influence the exchange rate for the Australian dollar to appreciate.

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

The terms of trade would increase as the demand for exports may have increased causing the Australian dollar to appreciate. The balance of payment may have a lower current account deficit as

End of Question 21