

Section III — Answer either Question 25 or Question 26 Sample 1 Question 25

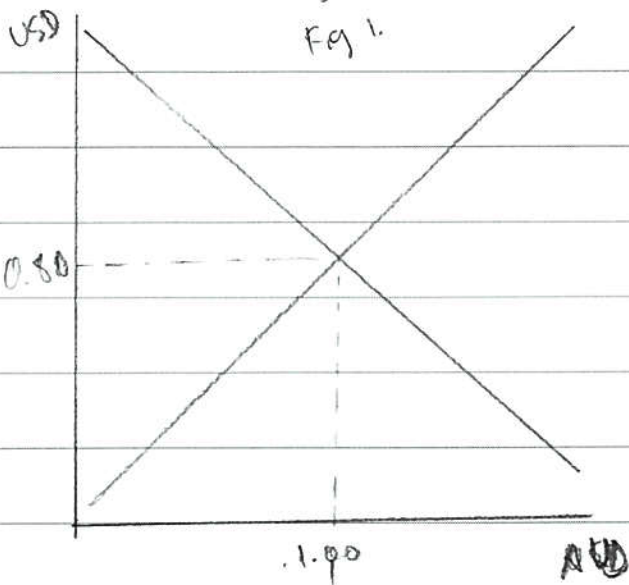
25

Write the question number in the space provided

Question Number

Movements in the Australian dollar can ^{greatly} affect the performance of the Australian economy. The principle of supply and demand applies heavily towards the exchange rates, which have ^{greatly} been affected by both internal and external factors.

Exchange rates are the value of one economy's currency against another. Australia's currency, the AUD, has often compared to the value of the US dollar, as it is one of Australia's most major trading partners. As shown in figure 1, the value of a currency operates similar to that of supply versus demand.



The Australian dollar is worth eighty US cents. However, the AUD is also measured ^{through} comparison with many of its trading partners, known as the ~~total~~ trade weighted index. As of October

2013, Australia's TWI is at 0.73, which has been an overall improvement over recent decades, due to a variety of factors.

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The mining boom and resources boom has been an enormous contributor to the value of the AUD, however this occurs as since there has been an increased demand for Australian minerals to countries such as China, Australia has seen an increased demand for the Australian dollar. This can be reflected through mainly the rise in interest rates over recent years, where a low of 1.2% in 2009 climbed to 4.5% in 2011. It is evident that the increased demand for resources has contributed to the recent rise in the AUD, which is currently at \$0.96 US.

It must be noted that whilst the mining boom has been affected by the mining boom, the mining boom has also acted as a stabiliser for the AUD. Whilst the mining boom has been affected the AUD, the AUD has also acted as a stabiliser for the mining boom. As in the line "The high Australian

dollar has had a major moderating effect on the
revenues boom. In doing so, it has waded
some unmet and losses; the value of the
AUD will curb excessive economic growth
which may lead to inflation. The
currency boom which occurred shortly after
the ~~start~~ of Global Financial Crisis of
2008, has resulted in a steady increase
of the AUD in the graph "Australian
dollar 1987" from a low of approx \$0.70 US
to a high of \$1.10 US. As there is increased
international demand for and investment
in the Australian economy, ~~there is an~~
~~increased~~ supply of AUD becomes limited,
hence increasing its value. This acts to
deter future investors as the price of revenues
are no longer comparatively cheap. Thus,
the Australian economy's performance has
been strong, however countries' ~~affairs~~
possible ~~not~~ excessive economic growth
and ~~can~~ which will lead to inflation.

~~As mentioned~~ It has also went that
some investors and business have ~~been~~ succeeded in
the industry, and others have not. This
is because due to the rise of the mining
boom, Australia operates ⁻⁴⁻ on what is known

as a 'two-speed economy' - one industry thrives whereas others decline.

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The performance of the Australian economy, ~~whilst overall~~ ^{has been overall} positive in recent years, due to the value of the AUD affecting both consumer and business confidence. As the exchange rate is often used as a measure of the ~~of success~~ ^{of success} of an economy, consumer and business ~~are inclined~~ ^{are likely} to ~~now~~ purchase and invest when there is a high AUD. Australia's recent performance reflects this ~~not~~ ^{concept}, as ~~shown~~ ^{evident} through the increased expenditure and economic growth during 2009 to 2011, where ~~the~~ ^{average} economic growth exceeded ~~average~~ ^{prediction} of 2.75% by .25%.

Conversely, if the AUD ~~moves~~ ^{depreciates} down, both the investment from overseas firms and consumer confidence may be ~~damaged~~ ^{affected}. When there is a low AUD ~~and~~ which is expected to rise, overseas investors (often speculative firms) will purchase ^{AUD} AUD, or invest in Australia, thus increasing our capital account. This can be

highlighted ⁱⁿ the recent depreciation in the AUD, where in August 2013, the AUD reached a low of \$0.85 after the high of \$1.10 in January, and has returned to \$0.96 as of October 2013. However, these fluctuations in the exchange rate has ensured Australia's steady economic growth.

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^{Arguably} The largest factor of changes in the AUD has and consequently economic performance has been the deregulation of financial markets in the 1980s. In 1983, the exchange rate of the AUD was changed from fixed to a floating exchange rate. In the short term, this change proved unsuccessful, resulting in the loss of one third of the value of the AUD, however as shown in the diagram, 'Australian dollar 1987-2012', this change has undoubtedly affected the performance of the Australian economy in both positive and negative ways - the ^{negative} drought occurring in the early 2000s played a contributing role towards the economic performance of Australia, as shown through - historically low

interest rates at almost 50.50US.

This changes ~~in the~~ to the exchange rate ~~has~~ ~~been~~ ~~has~~ ~~went~~ ~~to~~ Australian economy having more international interaction, this improved performance.

Thus it is clear that movements in the exchange rate ~~may have~~ ~~an~~ undoubtedly have a ~~major~~ ~~moderating~~ moderating effect on the performance of the Australian economy. This is due to As the AUD changes, it will attract investors, consumers and also stimulate economic growth, as shown through the mining boom. Performance of the Australian economy and the AUD will consistently demonstrate their link ~~through~~ ~~the~~ ^{through} increasing prevalence of globalisation.