Question 24 (continued)

(d) Outline an advantage and a disadvantage of moving from a fixed exchange rate to a floating exchange rate system. **4**

In 1983 the Australian dollar was floated after being based off a trade weighted index. An advantage of a floating exchange rate is that it allows for an accurate representation of the currency's value as it is based off the mechanisms of demand and supply. This automatic change can lessen economic shocks, such as the appreciation of the dollar in the GFC to counter slowing economic growth (peaking at around $1.10 USD). However, this change reduces the power of the central bank and prevents it from actions such as artificially devaluing the currency to preserve the competetiveness of its exports.

End of Question 24