

UNIT 3A ECO Sample Extended Answer Questions

1. In recent years the value of the AUD compared to the USD has depreciated from 98c to 68c.

(a) Explain and illustrate possible reasons for the decrease in the value of the AUD. (12 marks)

(b) Discuss possible effects of a depreciation of the AUD on

(i) Australian primary producers, and

(ii) Australian households. (8 marks)

or Australia's BoP

Description	Marks
• Exchange rate def'n; Demand/supply model for AUD.	1-2
• Reasons include financial crisis (less foreign investment); ↓commodity prices/ToT; ↓interest rates; Chinese economy's slowdown;	1-8
• Relate above reasons to diagram ie ↓D for AUD or ↑S of AUD.	1-2
Total	12
• Depreciation leads to cheaper exports and more expensive imports.	1
• Imported capital and inputs more expensive, thus increased costs; Exports cheaper, thus may be increased demand; Little benefit to miners; Agricultural producers should benefit.	1-4
• More expensive imports, thus less demand leading to lower standard of living; higher prices also due to higher costs for firms; inflation may lead to higher interest rates; Australians holidaying o/seas worse off; may create jobs in import-competing businesses.	1-4
Total	8
Total	20