

## MACROECONOMICS AT WORK EXERCISE

### THE VALUE OF THE \$A AND ITS EFFECT ON GDP

**REFERENCES:** ‘Export earnings set to tumble’ (by Nathan Scholz), and ‘Farmers, miners to suffer with soaring Aussie dollar’ (by Shane Wright), *The Courier-Mail*, 16 December 2003, p. 25.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 6, 11, 14.

### OVERVIEW

The articles were stimulated by a report from the Australian Bureau of Agricultural and Resource Economics (ABARE) which is a research arm of the Commonwealth Government whose focus is the primary producing industries. A large proportion of the production of these industries is exported, rather than consumed domestically, and exports of agricultural and mineral products represent more than half of total Australian exports. The report included forecasts of production and exports for the 2003-04 year and estimated that while production would increase the income received from exports would fall, a consequence partly of a fall in world commodity prices and partly of the increase in the value of the \$A.

### QUESTIONS

1. What is meant by the expression ‘world commodity prices’? Has there been a general trend in these prices? What are the main determinants of these prices?
2. What is implied in the expression (used in the heading to one of the articles) ‘soaring Aussie dollar’. Why has this occurred?
3. Explain how the value of exports is predicted to decline even though both the volume and the ‘world price’ may increase.
4. How does interest rate policy intersect with these issues? Why are primary producers opposing any further interest rate increases?
5. Whilst these articles focus on the effects on GDP of the increase in the value of the \$A, are there *other* significant effects?