

MACROECONOMICS AT WORK EXERCISE

INFLUENCES ON THE EXCHANGE RATE

REFERENCE: ‘Strong US data put the skids under the Aussie dollar’ (by Tony Grant-Taylor), *The Courier-Mail*, January 20, 2004, p. 21.

CHAPTER RELEVANT TO THIS EXERCISE: Chapter 17.

OVERVIEW

In addition to providing an analysis of some of the influences on the exchange rate (and hence the value of the Australian dollar) this article serves to emphasise how newspaper reports often reflect a very short-term perspective. Such reports need to be read in their historical context. The particular context of this article (written in late January 2004) is a *fall* in the value of the Australian dollar in the wake of a sustained *rise* in its value in relation to the US dollar over the preceding year (a rise of over a third). The article suggests, however, that this fall might have only been a temporary one in a continuing *long-term* trend of an *appreciation* of the value of the \$A against the \$US.

QUESTIONS

1. Explain the meaning of the term in the heading of the article: ‘strong US data’, and how this data was perceived to have an influence on the value of \$A.
2. Interpret the term ‘put the skids under’ as it is applied to the value of the \$A.
3. What is the significance of the point about increased foreign investment in the US?
4. What is the relevance of the observation about ‘weaker commodity prices’?
5. Why would what happened in the currency market have given a boost to shares in mining companies (as is observed in the article)?
6. Comment on this article in the light of what has happened between the date on which the article was written and the date you are reading this.