MACROECONOMICS AT WORK EXERCISE

EXCHANGE RATE DETERMINATION

REFERENCE: '$US woes power up our dollar' (by Sid Marris), *The Weekend Australian*, May 3–4, 2003, p. 36.

CHAPTER RELEVANT TO THIS EXERCISE: Chapter 17.

OVERVIEW

This observation was made at the beginning of May 2003 when the value of the Australian dollar was starting to increase rapidly — at least in relation to the US dollar. This increase was due particularly to the fall in demand for the US dollar, which also saw other currencies appreciate in relation to the US dollar (so that the rise in value of the Australian dollar against these other currencies was less marked or in some cases negligible). To put the rise into perspective, the value of the Australian dollar at the time the article was written was approximately US$0.63, a rise from levels in mid-2001 of under US$0.50, though there had been almost as rapid a *fall* to this level from low 60c levels in early 2000. The article makes a number of observations about the movement of the Australian dollar and the reasons underlying it.

QUESTIONS

1. What is meant by 'the demand for a country's currency'?

2. What is meant by the suggestion in the article that the US dollar is 'on the nose'? What implications does this have for the value of the Australian dollar?

3. Why hasn't the Australian dollar appreciated with respect to the euro to the same extent as the US dollar?

4. What is meant by the statement that 'any US economic recovery could have a big reverse effect'? Effect on what?

5. How is discussion of tourism relevant to discussion of the value of the Australian dollar?

6. How do SARS and the drought impact on tourism and the value of the Australian dollar?