

MACROECONOMICS AT WORK EXERCISE

WHITHER THE AUSTRALIAN DOLLAR?

REFERENCE: ‘Economy feels jolt of falling greenback’ (by Fleur Anderson), *The Courier-Mail*, May 20, 2003, p. 4.

CHAPTER RELEVANT TO THIS EXERCISE: Chapter 17.

OVERVIEW

This article was written at a time when the Australian dollar was rising rapidly in value. In terms of the US dollar, the value of the Australian dollar had increased from below US50cents in 2001 to around US66cents. Several commentators were predicting that it would continue rising in the short term to US70cents. As the headline suggests, the *rise of the Australian dollar* has been the result of the *fall in the value of the US dollar*. This has occurred against a wide range of currencies, not only the Australian dollar. So the change did not necessarily affect the value of the Australian dollar with respect to other currencies. However, it should be noted that the Australian dollar *has* risen independently relative to some other currencies including the pound sterling and the Japanese yen, so the rate of exchange in terms of other currencies does not necessarily mirror the changes in US dollar terms. The article briefly surveys some aspects of the rise in value of the Australian dollar.

QUESTIONS

1. Explain the implication that the rise in the Australian dollar in relation to the US dollar is essentially the result of a *fall* in the *US dollar*.
2. Why has the Australian dollar risen in value relative to the US dollar and not, or not to same extent, relative to other currencies?
3. What is the significance of the paragraph in the article quoting an economist as saying that certain destinations, including Europe, were ‘still expensive destinations for Australians’?
4. Why is reference made in the article to the Australian tourism and farming sectors?
5. What is meant by the suggestion that if the value of the Australian dollar continued to rise, ‘the Australian sharemarket could suffer and the Reserve Bank may delay its next interest rate rise’?