

Explain how changes in the domestic and global economy have impacted Australia's exchange rate

Since floating the Australian dollar in 1983, Australia's exchange rate is determined by supply and demand on foreign exchange markets where changes in both domestic and global economies will influence its value. For example, changes in both the global and domestic growth rates, such as inflation rates, consumer preferences, interest rates, speculation and investment opportunities will impact the supply and demand of the Australian dollar (AUD), hence influencing its value.

INCLUDE A SHORT PARAGRAPH EXPLAINING HOW A FLOATING E/R WORKS - USE DIAGRAMS TO SUPPORT YOUR EXPLANATION!!

An economy's growth rate measures its output value of this year compared to last year represented by a percentage. During the second mining boom, Australia experienced a high growth rate of 4.3%, compared to 1.9% from its previous year. In comparison to its major trading partners, Australia had moderate levels of growth as China (5.2%) and US (4.7%) experienced higher levels while Japan (2.3%) and UK (1.5%) experienced lower levels which would affect the direction of Australia's exports and imports. In 2010-11, China was Australia's biggest two-way trading partner (worth \$113 billion) as China was experiencing higher levels of growth, they would demand more of Australia's exports as their consumers would have higher disposable incomes and thus be able to purchase more and demand more of the AUD. This caused an increase in the demand for the AUD and the demand curve to be shifted right, shown in diagram A. Australia's export revenue had also increased from \$250 billion to \$297 billion from 2009-10 to 2010-11 with a BOGS surplus of \$21 bn in the current year. This increase in demand for Australian exports would increase the demand for the AUD causing the dollar to appreciate, reaching a maximum of \$1.11 USD in July of 2011. Furthermore, if global growth rates are higher than the domestic growth rate, then domestic demand for imports would *Diagram A - Increase in demand of AUD → higher price* decrease as the global goods and services would have higher prices due to their higher level of economic activity and thus inflation. With less demand for imports, the supply of the AUD would decrease as owners of AUD are not looking to buy global

Kommentiert [1]: delete - doesn't add anything to this question!

Kommentiert [2]: context doesn't add anything here - if you want to talk about the mining boom talk about how it raised global demand for resources and thus increased X Y and D(AUD)

Kommentiert [3]: bring this in a couple sentences earlier

Kommentiert [4]: nice!

Kommentiert [5]: bit of a nice link (I would suggest deleting this part!)

Kommentiert [6]: demand for imports is relatively less than demand for exports since domestic growth is lower than global growth!

Kommentiert [7]: not necessarily - it just would not increase as much!

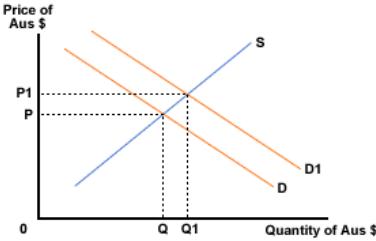
currencies, causing an appreciation of the dollar and the supply curve would shift left shown in diagram B.

Kommentiert [8]: check

This can also be seen in 2017 to 2019 as China's growth rate declined from 6.8% in 2017 down to 6.1% in 2019, there was an increase of 14.6% in imports from China to Australia, up from \$64.249 billion in 2017 to \$81.777 billion in 2019 (Department of Foreign affairs and trade), however this would cause a depreciation as demand for imports increased, causing the dollar to devalue from US\$0.78 in the beginning of 2017 to US\$0.70 at the end of 2019. Hence, changes in the growth rates in both global and domestic economies will impact the supply and

Diagram B - Decrease in supply → higher price

demand of the AUD.



The inflation rate measures the general price of goods and services and compares them to the previous year which is represented as a percentage. If domestic inflation rates are lower than global inflation rates, then there would be more exports as the global consumers would see the domestic economy's goods and services are relatively cheaper than their own due to their higher inflation rate. This

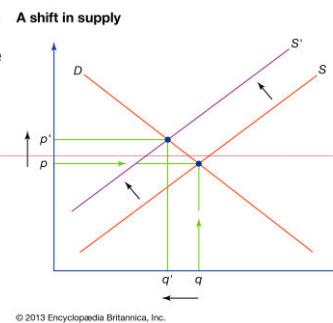
would cause the demand for exports to increase, raising the demand for the AUD and causing it to appreciate. Furthermore, if the inflation rates of overseas economies are higher than domestic inflation rates, then the domestic demand for overseas goods and services would decrease as the prices of those goods and services would be higher and less affordable for domestic consumers. This will decrease the supply of the AUD which would contribute further to its appreciation. This can be seen in 2018-19 when Australia's interest rate was at 1.8% compared to its trading partners, China (2.9%), US (2.44%), UK (2.48%) was much lower. As prices were higher in those 3 countries, Australia's exports were relatively cheaper and thus were in high demand as Australia's export revenue was \$470.2 billion dollars with a \$48.8 billion BOGS surplus. This had caused fluctuations in the value of the AUD however other factors such as tensions between China and Australia causing uncertainty amongst investors and the onset of the COVID-19 virus would end the year with an AUD value of US\$0.68, down \$US0.05 from the start of the year.

Kommentiert [9]: you categorise your domestic and global impacts well, BUT you should be creating a timeline from 2011-current looking at the different domestic and global impacts (by categorising them as economic events by date rather than under what you have done)

Kommentiert [10]: find another reason for this!

Kommentiert [11]: there were more important causes of this depreciation!!

Kommentiert [12]: instead only focus on ONE economic event by date (MIB)



Another factor that would affect Australia's exchange rate is consumer tastes and preferences for Australian products or overseas products. For example, Australian consumers prefer imported cars over domestically produced cars. In the first half of 2018, there were 605,522 sold to Australians with Japanese produced cars accounting for 30.45% of sales at 184,398 cars. Following Japan, is Thailand where car manufacturers such as Ford, Toyota and Mitsubishi produced some of their cars and they made up 26.33% of total cars sold at 159,421, followed by

Kommentiert [13]: check!

Kommentiert [14]: refer to specific event here!

Kommentiert [15]: also include the reduction in protection for the domestic industry which resulted in higher imports of cars

Korea at 15.1%, with 91,368 cars sold and lastly Germany where BMW, Mercedes-Benz, Audi, Holden Commodore are produced sold 50,589 which is 8.35% of sales. These statistics quantify consumer tastes and preferences which would affect the AUD as it depreciated from US\$0.78 to US\$0.7 in 2018-19 as domestic demand for imports increased, the supply of the AUD increased so the dollar had depreciated. Conversely, in 2010-11, the global demand shifted to commodities such as minerals which Australia had a competitive advantage in. This would lead to greater global demand for Australia's minerals, increasing the demand for the AUD and causing the dollar to appreciate to a maximum of US\$1.11 in July of 2011.

Kommentiert [16]: too many stats - ruins flow the essay

Kommentiert [17]: link to higher supply of the AUD first!

Kommentiert [18]: put stat after the explanation

Kommentiert [19]: remove this - you have already expanded upon it in the first body paragraph!!

The exchange rate of the AUD would also be affected by the global and domestic interest rate differentials. In 2015-16, Australia's interest rate was at 2.5% this allowed for its major trading partners, China (5.2%), USA (0.25%), UK (3%) and Japan (0%) to invest into Australia with hopes of higher return as with the USA and Japan, Australia had a positive interest differential meaning that there would be increased capital inflows into Australia, raising the demand for the AUD and leading to appreciation. Conversely, countries like the UK, with whom Australia had a negative interest rate differential, had decreased capital inflows into Australia leading to a decreased demand for the AUD from the UK, leading to depreciation against the UK pound, which is negated with the use of the TWI as there was appreciation with the USD and Japanese Yen. A total of \$3.51 trillion flowed into Australia in 2015-16 while a total of \$2.28 trillion dollars flowed outwards. For the inwards financial flows, the largest component was portfolio investments which are speculative in nature. They made up more than half of the inward flows at \$1,836.3 billion which represented investment opportunities from foreign investors. If there are higher investment opportunities in Australia, then there would be higher inflows of investment due to potential capital gains, leading to a higher demand for the AUD and causing the dollar to appreciate. The AUD's value increased to US\$0.77 in April of 2016, up US\$0.07 from the start of the year.

Kommentiert [20]: refer to a much more recent statistic to show how the AUD has depreciated!!

Kommentiert [21]: stats?

Kommentiert [22]: nice! Since you mentioned the TWI and Yen and UK pound you will need to provide stats for these movements or delete their explanations from your essay (USD is usually enough!)

Thus the changes in demand and supply of the Australian dollar will affect its value and the factors influencing demand and supply include global growth rates, relative inflation rates differentials, consumer tastes and preferences, interest rate differentials and investment opportunities.

Great essay!! You have a nice coherent structure to your essay, and your linking between economic terms and relationships is nice!! To improve I suggest the following:

- I would suggest basing each of your paragraphs over a different domestic/global event to provide a coherent timeline to the marker of how the AUD moved from approximately 2011 to its current depreciated value!! (A possible structure could be MIB → post MIB slowdown and Chinese slowdown → Improvement in Aust LNG sector (investment opportunities) → negative i/r differential → etc.)
- Generally with the topic sentences in this essay you want to refer directly to the global or domestic change that has occurred → and its general effect on the price of the AUD (try to do this a bit more throughout your essay!)

- Sometimes you provide too many stats (statistical evidence is not a bad thing, but too much can ruin the flow of your essay!). To improve I would suggest only using stats when you have to prove something in your essay!

← **Formatiert:** Mit Gliederung + Ebene: 1 + Nummerierungsformatvorlage: Aufzählungszeichen + Ausgerichtet an: 0,63 cm + Einzug bei: 1,27 cm