**Drivers of the Australian Dollar exchange rate**

**Questions**

1. Define a floating exchange rate.
2. Distinguish a ‘longer term driver’ of changes in the exchange rate from a ‘shorter term driver’
3. Draw a fully labelled demand and supply diagram for the Australian Dollar (AUD) exchange rate.
   1. Explain what makes up the supply of the AUD, providing two examples of transactions that will influence supply.
   2. Explain what makes up the demand for the AUD providing two examples of transactions that will influence demand.
   3. Explain why the supply line slopes up and the demand line slopes down.
4. Describe what would need to happen to the demand and supply lines for an appreciation of the AUD to occur. Use the diagram to illustrate.
5. Describe what would need to happen to the demand and supply lines for a depreciation of the AUD to occur. Use the diagram to illustrate.
6. Explain what is meant by the interest rate differential and outline how a decreased interest rate differential can occur.
7. Explain how a lower interest rate differential influences the value of the AUD. In your answer, refer to bonds, assets and capital.
8. Explain the role of the interest rate differential in the transmission of monetary policy.
9. Define the Terms of Trade (TOT).
10. Describe the relationship between commodity prices and the terms of trade.
11. Describe the relationship between commodity prices/TOT and the exchange rate.
12. Explain why the AUD is often referred to as a ‘commodity currency’.
13. Describe how international trade influences the value of the AUD.
14. Define ‘risk sentiment’ and explain how it exerts short term influences on the value of the AUD. In your answer, make reference to the positive correlation between US share prices and the value of the AUD.
15. *‘The RBA manipulates the value of the AUD.’* Discuss.