

Answer on Question #44877 – Economics – Macroeconomics

Consider the rand/US dollar exchange rate. Let's assume that at a given point in time the exchange rate is R6.50 to the US dollar. Assuming that the exchange rate is flexible, explain how the following occurrences are likely to impact on the exchange rate. In each case look at the market for US dollar, and use a graph to illustrate your explanation to questions..

- a) The oil price increase and South Africa is a major importer of oil
- b) Citibank, a large US bank buys Standard Bank
- c) South Africa becomes the destination of choice for US tourists
- d) the South Africa Reserve Bank increases the Repo rate
- e) the US Federal Reserve (the central bank) increases the interest rate
- f) Speculators believe that the rand is overvalued and take positions in which they expect to profit from a depreciation of the rand.

1.2 What was the impact of the depreciation and the subsequent appreciation on (i) South Africa importers, and (ii) South Africa exporters?

Solution

- a) The oil price increase and South Africa is a major importer of oil - the rand/US dollar exchange rate will increase.
 - b) Citibank, a large US bank buys Standard Bank - the rand/US dollar exchange rate will increase.
 - c) South Africa becomes the destination of choice for US tourists - the rand/US dollar exchange rate will decrease.
 - d) the South Africa Reserve Bank increases the Repo rate - the rand/US dollar exchange rate will increase.
 - e) the US Federal Reserve (the central bank) increases the interest rate - the rand/US dollar exchange rate will decrease.
 - f) Speculators believe that the rand is overvalued and take positions in which they expect to profit from a depreciation of the rand. - the rand/US dollar exchange rate will increase.
- 1.2** what was the impact of the depreciation and the subsequent appreciation on:
- (i) South Africa importers will be better off of appreciation, as they get more money in dollar amount, than in the case of depreciation.
 - (ii) South Africa exporters will be better off of depreciation, as they get more rands for every dollar received from abroad, than in the case of depreciation.