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**Discuss the impact of changes in the domestic and global economy on Australia's exchange rate**

The Australian dollar was floated in 1983 by the Reserve Bank of Australia. Due to the float, it is susceptible to fluctuations as a result of a number of domestic and global economic factors. Domestic factors include changes in monetary policy and the levels of domestic economic growth, and global changes include interest rates, trade patterns and the global financial situation. Currently, the AUD is valued at $0.71 US.

Monetary policy plays a significant role in the determining of the value of the Australian dollar. The RBA conducts open market operations to manipulate the cash rate, the benchmark interest rate, and in doing so, cause changes to the value of the AUD. Contractionary monetary policy involves selling second hand government securities to banks in order to increase the cash rate. As a result, there is an increased level of savings and foreign portfolio and direct investment into Australia, resulting in increased demand for tie AUD. This increase in demand leads to an appreciation. Conversely, expansionary monetary policy requires the purchasing of second hand government securities from banks, decreasing the cash rate and reducing demand for the AUD, causing a depreciation. When the AUD was floated in 1983, the RBA conducted a dirty float, meaning that if necessary, the RBA can intervene and purchase or sell AUD to further manipulate the value of the currency if required. The level of economic growth in Australia also affects the exchange rate. If economic growth is increasing, the value of the AUD is most likely high. This was seen towards the second mark of the mining boom in 2013, when the value of the AUD was over $1.10 US. However if economic growth is decreasing, the value of the AUD falls. This is beneficial, however, as it makes Australia more internationally competitive.

Global changes include global interest rates. If interest rates go up in other countries compared to Australian interest rates, there will be reduced demand for the AUD, as investment will occur where it is more profitable, causing a depreciation in the value of the AUD. However if Australian interest rates are high compared to the rest of the world, demand and therefore the value of the AUD will increase. Trade patterns include the demand for Australia's exports. If the demand for exports is high, other economies will have to trade their currency for Australian dollars, increasing the demand for the AUD and thus causing an appreciation. If growth in Australia's main trading partners is declining, their need for Australia exports is reduced, hence reducing demand for the AUD and causing a depreciation. The global financial situation also plays a significant role in the value of the AUD; if the global economy is experiencing a recession, the value of all currencies, including the AUD, will decline, as seen during the GFC.

Currently, the AUD is valued at US$0.71. Contractionary monetary policy has contributed to this, as slowed economic growth has called for the need to stimulate the economy by lowering interest rates to an all-time low of 2%. Inflation is low, at 1.5%, thus not being a contributing factor to fluctuations in the AUD. The main reason for the recent depreciation in the AUD can be attributed to slowing growth in China, Australia's main trading partner. Reduced demand for Australia's exports from China has resulted in a rapid depreciation of the exchange rate and a decline in the Terms of Trade. In September 2014, the TOT was at 89.4 as of September 2015, it has declined to 85.7, demonstrating Australia's reliance on China for trade. The TWI has also experienced a decline over the past year, falling from 71.3 in September 2014 to 59.2 in September 2015, demonstrating that the exchange rate has depreciated against all of the currencies in the basket, all of which make up Australia's main trading partners. Furthermore, the decline in investment in the mining sector has contributed to the declining Australian exchange rate since the end of 2013, when the end of the mining boom was experienced.

Australia's exchange rate, since being floated in 1983, is susceptible to fluctuations that may result from changes in the domestic and global economies. Changes in monetary policy and economic growth in Australia can lead to changes in the value of the AUD as demand and supply changes. Furthermore, global changes, including interest rates, trade patterns and the global economic situation can have an effect on the value of the AUD. Currently the AUD is valued at US$0.71, and is expected to continue steadily depreciating for some time. This reflects slowed economic growth within Australia as well as in China, Australia's main trading partner. It also reflects the highly expansionary monetary policy that has been implemented in attempt to stimulate the economy, and the declining mining investment from overseas.