

Penporn Pukahuta 2010: The Relation of Oil Price, Exchange Rate and Inflation in Thailand. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Assistant Professor Bundit Chaivichayachat, Ph.D. 119 pages.

The main objective of this study is to investigate the relation of oil price, exchange rate and inflation in Thailand including in the term of factors and lags by employed structural vector autoregressive (SVAR) model and analyzed by using monthly data from January 1997 to December 2009. We also calculated the impulse response function and the variance decomposition of 4 major macroeconomic variables including exchange rates, crude oil price in the world market, retail oil price in the country and core inflation.

The empirical evidences indicated that both direct and indirect relationships of retail oil price in the country, crude oil price in the world market, exchange rate and core inflation depend on the situation or government policies to maintain stability of economy system. For example, the retail oil price in the country was affected by pure shock rather than exchange rate shocks and crude oil price shocks, whereas the exchange rate was highly affected by core inflation shocks than the other variables. The core inflation was significantly affected by pure shocks rather than by the shock of retail oil price. However, the shock of exchange rate did not respond to the core inflation.

Based on the result of the study, we suggested that under the world economy fluctuated the policy maker should consider and concern the impact of economic variable in the term of factors and lags to set the most efficiency policy.

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