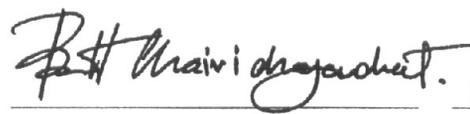


Supansa Soonsinpai 2008: The Relationship between Fiscal Imbalances and Foreign Capital Flows in Thailand. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Mr. Bundit Chaivichayachat, Ph.D. 113 pages.

The objective of this research is studying the relationship between fiscal imbalances and foreign capital flows in Thailand by using monthly data covering the period 1993: 1 to 2006: 12 which divided into three periods, including before financial crisis, after financial crisis and overall. We used Vector Autoregressive (VAR) to analyze Impulse Response Function, Variance Decomposition and Granger Causality test.

The empirical evidence, for the case before financial crisis, indicate that for Impulse Response Function and Variance Decomposition between fiscal imbalances and capital flows are high. The empirical was supported by Granger Causality that the relationship between capital flows and fiscal imbalances is reverse causality, as explained in Mundell-Fleming Model that fiscal policy has high efficiency with a fixed exchange rate. After financial crisis and overall period, the Impulse Response Function indicate that the response between fiscal imbalances and capital flows is very small. For Variance Decomposition, the variance of fiscal imbalances impacted the variance of capital flows so small too. For Granger Causality test, fiscal imbalances and capital flows, they does not Granger cause one another. The results get along with the theory that fiscal policy has small efficiency with a floating exchange rate. Moreover, after financial crisis and overall, we find the relationship between capital flows and real exchange rate because of the difference between the exchange rate regime. So, with a floating exchange rate, government should pay attention on exchange rate policy and also focus on fiscal discipline.

Supansa Soonsinpai
Student's signature


Thesis Advisor's signature

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