Chatchunya Anukokvitaya 2007: The Effect of Government Budget Deficits on Private Consumption and Investment. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Assistant Professor Arunee Punyasavatsut, Ph.D. 101 pages.

The objective of this study is to examine the effects of government-deficits financing on the private expenditure. The study compares two methods of deficits financing which are borrowing from the Bank of Thailand (i.e. printing money) and borrowing from commercial banks. A small macroeconomic model was employed to clarify the relationship between government deficits and the private expenditure. The model shows that the deficits financing affects the private expenditure by passing-through interest rate, wealth, and money supply channels. The two-stage least squares method was used to estimate the coefficients of the model. The model was simulated to study the effects of deficits financing. The data are quarterly data during 1995:1 to 2005:4.

The study found that the government deficits have statistically significant relationship with the private expenditure, the interest rate, and money supply. When the government finances its budget deficits by borrowing from the Bank of Thailand, it is found that the money supply increases while the interest rate drops. Declined interest rate results in investment slowing down, while increased money supply causes inflation. So, the consumption does not increase as much as expected. On the other hand, when the government borrows from the commercial banks, the interest rate increases. This will result in a drop of investment, while consumption goes up because of the increases in wealth

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