

Pokpong Chaita 2007: The Effect of the Size of Government on Inflation in Thailand. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Assistant Professor Arunee Punyasavatsut, Ph.D. 102 pages.

Since stable economic growth stability is an important goal, the fiscal policy has come to play an important role to maintain stability of the economy. The government has intervened by running fiscal policy in both government revenue and expenditure to stimulate the economic growth. This study emphasizes on government expenditure intervention in the optimal level and following intervention economic activity not affect to inflation higher. The main purpose of this study is; to study the effect of the size of government on inflation in Thailand to find both in short and long term relationship between the variables. The data set use here is secondary data from 2nd quarter 1995 to 4th quarter 2004; the totally of 39 observations.

The methodology method of this study used; stationary test by applying unit root test and so on finding the long term relationship between the variables by applying Johansen Co-integration test. The result of this study indicates that, change in size of government has positive relationship with change in consumer price index in long term. This would indicate the government measure in order to reach the goal is that fiscal policy proceeds. Whatever, following intervention economic activity, there are affect to size of government which measured by government expenditure to gross domestic production ratio. The results of size of government expand effects to stimulate to the economy growth, higher domestic investment and increase employment. The fiscal policy is an aggregate demand side effect which has affect to higher inflation. Furthermore, the descriptive analysis of this study found that increasing in change in consumer price index as a result of external factor which is the oil price rise. The finding shows a strong evidence of oil price to explain the inflation. In addition, to find the short term relationship by applying VECM indicated that whenever, if any exogenous variables have changed, there are affect to change in consumer price index by adjust about 67.11 quarter to long term equilibrium.

Based on the test results, important implement of this study is that government should pay more concern on the problem of its fiscal policy intervention and should consider other external factors which are not under control that is oil price in the world market and exchange rate hedge. The finding shows strong evidence to effect on Thai economy.

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