

Wareerat Petchseechoung 2011: The Effects of Economic Uncertainty on the Demand for Money in Thailand. Master of Economics, Major Field: Economics, Department of Economics.
Thesis Advisor: Assistant Professor Arunee Punyasavatsut, Ph.D. 141 pages.

The impacts of economic uncertainty on the demand for money were studied based on theory of demand for money and general equilibrium theory. Economic agents were assumed to make their portfolio decision against a backdrop of macroeconomic uncertainty. The demand for money was a function of real income, real interest rate, and an index of economic uncertainty that was calculated from GARCH (1,1) model. The Johansen and Juselius (1990) procedure of cointegration was employed to estimate the long-run relationship between monetary aggregates, both narrow money supply and broad money, and the explanatory variables. The index of economic uncertainty was allowed to enter short-run dynamics of the VECM estimated model.

The empirical results show that, among 3 main macroeconomic uncertainty, the mood of the stock market or variance of SET index and inflation or the variance of consumer price index generated the maximum uncertainty. The index of economic uncertainty did not statistically significant in the short-run narrow of demand for money function but did significant in the short-run broad. However, the direction of relationship between uncertainty and broad money followed the assumption that is the increases in the index of economic uncertainty led to the decreases in broad money. This means that the agents would hold money for hoarding-money and precautionary under uncertainty because they disbelieve in money market and financial institution .

According to the study, the economic uncertainty did affect the public's demand for money in broad money (M2) part. The rational economic agents adjusted their demand for money with respect to real income and nominal interest rate along the long-run equilibrium. Thus, the policy makers may not concern about uncertainty but should not ignore mood of the stock market and inflation which is an important uncertainty.

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