Tidarat Sricharoon 2009: The Impacts of Oil Price on Inflation and Private Investment. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Assistant Professor Arunee Punyasavatsut, Ph.D. 238 pages.

The purposes of this research are: to study the structure of domestic oil price and the situation of domestic oil consumption; to propose the solutions of oil crisis; and to study the directions and the impacts of world oil price shock on domestic inflation and private investment using an equilibrium economic model. The methods of the study are: descriptive analysis using secondary data from 1997 to 2007; and quantitative analysis using quarterly time-series data from the first quarter of 1997 to the last quarter of 2006. The quantitative analysis includes the unit root test, vector autoregressive (VAR), cointegration, impulse response function, and variance decomposition.

The study found that Thai oil consumption increased continuously. Due to the country economic expansion, domestic oil production was not enough for oil consumption. So, the country imported a large amount of oil from foreign countries. So, the domestic oil price was affected by the higher world oil price. The results of the cointegration method indicated that the change in oil price affected inflation rate, with positive relationship. The higher world oil price caused higher cost of production. Then, the domestic producers increased commodity prices. This led to higher inflation rate. While the change in oil price affected real private investment, with positive relationship. Because the government implemented the fixed domestic-oil-price policy, especially during 2003-2005. So, the producers could invest, even if world oil price was higher. In case of impulse response function and variance decomposition, the results indicated that inflation rate respond to oil price shock in negative direction, in the first quarter. And then, inflation rate respond uncertainly in the 2nd -12th quarter. After that, it adjusted to equilibrium in the long run. But oil price shock influenced variance of inflation rate least when it was compared to other variables. While real private investment respond to oil price shock in negative direction, in the first quarter. Then, real private investment respond uncertainly in the 2nd -10th quarter and it respond in positive direction since the 11th quarter. After that it adjusted to equilibrium in the long run. Oil price shock influenced variance of real private investment less than other variables. According to this study, the oil price had less impact on inflation rate and real private investment but the study had some limitations and oil price is the important cost of production. So, the government should consider appropriate policy for oil-price management associated with other economic variables.

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