

Unnop Sirichai 2010: Impact of Fiscal Policy on Economic Targets. Master of Economics,  
Major Field: Economics, Department of Economics. Thesis Advisor: Assistant Professor  
Bundit Chaivichayachat, Ph.D. 115 pages.

Government expenditure is a fiscal instrument, which used to encourage the economic growth of the country. But government expenditure increases may increase inflation. Therefore, this paper focuses on the effects of fiscal policy on economic targets, including growth economy and inflation by using a Structural Vector Auto regression model (SVAR), and employing quarterly data from 1994–2008.

The study found that when government expenditure increases the growth rate of gross domestic product one period ahead decreased 7.05%. Because government expenditure increases will reduce the investment opportunities of private sector. Indirect effect of government spending the study found that when government expenditure increases, interest rate will decrease to 1.63% in the next quarter. Interest rate does not increase because it has excess liquidity in financial system. For the stability of price levels, the results showed that the growth rate of gross domestic product when changed 1% standard deviation will result in lower rates of inflation to 0.47% for one quarter. Therefore, the results of this study suggest that the government should be using government expenditure to encourage the economic growth. Because government expenditure increases will not affect to increase inflation.

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