ABSTRACT

Thesis Title : The Portfolio Balance Approach to the Exchange Rate Determination between Baht and Pound Sterling

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Thailand is an open economy country. The monetary system and exchange rate must be taken into account for all business activity payment. Since Thailand has implemented the floating exchange rate, the movement of exchange rate changes all the time. To know the appropriate rate will be beneficial to the stability of the economy and will not result in the trade balance and balance of payments problems.

The purposes of this thesis are to study the factors determining the exchange rates between Baht and Pound Sterling in accordance with the portfolio balance approach following the model of Frankel. According to this model, it is the combination of the determination of exchange rates following the monetary concept and portfolio balance concept. The influenced factors of the determination of Exchange rates are divided into 5 variables i.e. the relative of money supply, real income, the interest rate, the inflation rate and bond supply. Data used in this thesis

are secondary quarterly data of Thailand and Great Britain during the period of 1986 through 1995 and use of Ordinary Least Squares method of evaluation.

The study shows that all of independent variables can be explained the exchange rate movement as much as 80%. The relative expected inflation rates coefficient is not statistically significant. The relative of real income, bond supply and exchange rate in previous period coefficient are statistically significant at 99% level. As for the relative money supply and interest rate coefficient are statistically significant at 95% level. The factors determining exchange rate movement shows that:

The relative of real income will effect the movement of exchange rates in the negative direction.

The relative of money supplies will effect the movement of exchange rates in the negative direction.

The relative of interest rates will effect the movement of exchange rates in the positive direction.

The relative of bond supplied will effect the movement of exchange rates in the positive direction.

Movements in the exchange rate in previous quarter will effect the present exchange rate in the positive direction.