

ABSTRACT

Thesis Title : The Determinants of Forward Premium

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The purposes of this study is to study the nature of forward exchange market. All transactions in this business area will deal with the receipt and payment of future foreign currency which will be affected by the exchange risk. This study also includes the factors which affect the forward premium. It is helpful to protect risk for the people who are dealing with foreign currency market. I also study the volatilities of forward premium which is affected by many factors.

Forward premium is a cost of business in protecting the exchange risk. The more of forward premium is an obstacle to protect risk. We also study the factors which influence on the volatilities of forward premium. This is represented by forward premium of Thai baht and US dollar. Qualitative and quantitative study are involved by using the econometrics model in order to find a proper forward premium.

The results of the study are as follows : the spread of baht interest rate and US dollar interest rate are the major factor affecting on the forward premium. It occurs especially in floating market. Furthermore, the projection of the value of baht compares with US dollar also affects the volatilities of forward premium. The high

volatilities of forward premium is affected by the movement of supply and demand in forward exchange market rather than the spread between baht interest rate and US dollar interest rate.

In conclusion, the government's intervention in foreign currency market will not occur in the free market. A variety of factors are used in deciding to enter forward premium market or foreign exchange market. There are no market indicator to distort real situation.