ABSTRACT

Thesis Title : The Impact of Thailand Financial Liberalization on the Money Multiplier

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Financial liberalization policy has been adopted by Thailand since the middle of 1990. According to the policy, flows of foreign capital could be freely made and has led Thailand to adopt flexible exchange rate regime on 2^{nd} of July 1997. So a study on the impact of financial liberalization and the adoption of flexible exchange rate regime on money multiplier is interesting since it will give us some appropriate clue to control money supply effectively.

The purposes of this study are to find financial and the institutional factors that determined Thailand money multiplier and to forecast Thailand money multiplier in 1999. By utilizing econometric method and the Bank of Thailand quarterly data from 1987 to 1998, both money multipliers (the m_1 and the m_2) are explained. In addition, forecasting on the multipliers for 1999 has been made by structural equations with trend adjustment method.

The results show that the m_1 was determined by currency-demand deposit ratio, the variability of deposit flows, and the domestic-foreign interest rate ratio; with their respective elasticity of -0.322, -0.105, and -0.072. For the m_2 it was determined by the currency-total deposit ratio, the variability of deposit flows, and the domestic-foreign interest rate ratio; with their respective elasticity of -0.717, -0.132, and -0.028. In addition, the financial liberalization policy and the flexible exchange rate regime caused increasing in both types of money multipliers. However, the financial liberalization factor is significant at 90 percent confidence level for m_2 and not significant for m_1. Furthermore, the forecast indicates that the value of m_1 and m_2 in 1999 would be in a range of 0.92-0.97 and 11.32-12.32, respectively.

This study suggests that Thailand money multipliers could be stabilized by the Bank of Thailand appropriate monetary policy such that the currency-deposit ratio, the variability of deposit flows, and the domestic-foreign interest rate ratio are stabilized.