

Thesis Title	An Analysis of Factors Influencing the Determination of Foreign Exchange Rates	
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M.Econ.	Economics	
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Abstract

The objective of this thesis was to analyse the factors influencing the determination of foreign exchange rates using the real interest differential model by Frankel. The model yielded an equation of exchange rate determination in which the exchange rate was expressed as a function of the relative money supply, the relative income level, the short-run nominal interest differential, and the expected long-run inflation differential. This study specifically studied the following exchange rates : Baht - U.S. dollar, Baht - Japanese 100 yen, Baht - Germany mark, Baht - Singapore dollar, Japanese yen - U.S. dollar, Germany Mark - U.S. dollar, and the U.S. dollar - Pound sterling exchange rates. The data used in this study was monthly in nature and covered the period of time from December 1984 to June 1997. This time period corresponds with the time period in which a fixed exchange rate regime was used and the Baht was pegged to a basket of currencies.

The study results showed the following findings. First, for the Baht - Singapore dollar exchange rate, the only significant independent variable at the 95% confidence level was the expected long-run inflation differential. When all other variables were held constant, if the expected long-run inflation for Thailand was higher than that of Singapore by 1%, it would cause the Baht - Singapore dollar exchange rate to increase by 4.35%. Second, for the Japanese yen - U.S. dollar exchange rate only the relative money supply showed significance at the 92% confidence level. When all other variables were held constant, if the Japanese money supply was greater than the U.S. money supply by 1%, it would cause the Japanese yen - U.S. dollar exchange rate to increase by 0.0821%. In regards to the Baht - U.S. dollar, Baht - Japanese 100 yen, Baht - Germany mark, Germany mark - U.S. dollar, and the U.S. dollar - Pound sterling exchange rates, each independent variable used in the model was found to be insignificant in the determination of these exchange rates.