

Thesis Title	An Analysis of Factors Influencing Forward and Risk Premiums in Forward Foreign Exchange Trading.
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M. Econ.	Economics
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Abstract

The value of a forward premium in the forward foreign exchange trading is one form of cost which is believed to be extremely important for those who want to protect themselves from foreign exchange risk, for example exporters and importers or those who do business between two or more countries, because the increase in the forward premium is an obstacle in the before mentioned risk protection. Or, if the premium decreases, it decreases the cost of forward foreign exchange trading. Thus, an understanding of the structural changes of the forward premium is a benefit for those conducting international business. Therefore, this thesis studies the factors which influenced the change in forward premium by separating the study into three parts. The first part studied the expectation of exchange rates using the "co-integration and error correction" technique by using data from the time period January 1985 - December 1992 to expect the future spot exchange rates during the time period of January 1993 - December 1995. The result of this part of the study found that the following independent variables : the forward rate, the interest rate ratio between Thailand and U.S.A., and the foreign exchange reserves per import values of Thailand all influenced the changes in future spot exchange rate in the long run. And it was also found that the lagged spot exchange rate, the forward rate, the interest rate ratio between Thailand and U.S.A., the current account balance per GDP, and the foreign

exchange reserves per import values of Thailand, in the short run could explain the changes in the future spot exchange rate. In addition to these results, this part of the study also found that expected future spot exchange rate followed in line with the rational expectation hypothesis.

The second part of this study tested the factors which influenced the expected risk premium during the time period of January 1993 - December 1995 by testing the variables used in the studies by Fama (1984), and Domowitz and Hakio (1985). The result of the test found that the fluctuation of the domestic and foreign money supplies had significance in the changes of expected risk premium. The only exception was the real interest rate comparison between Thailand and U.S.A. could not explain the changes of expected risk premium.

In the third part of this study, the factors, which influence the forward premium in the forward foreign exchange trading of Thailand were tested by using value data from one month forward premiums from the time period January 1993 - December 1995. The result of this test showed that the forward premium in the past, the interest rate ratio between countries, the current account balance per GDP all influenced the changes in current forward premium.