

ABSTRACT

Thesis Title : Factors Affecting Bank's Credit Multiplier

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Monetary policy is an important measure used to control the economic growth and stability of the nation. In order to achieve those goals, monetary authorities have to harmonize monetary policy with the varying economic situation. After financial liberalization, money supply is not suitable for using as an intermediate target of monetary policy. The Bank of Thailand has turned to focus on the credit expansion of commercial banks instead. Therefore, it is important to study and understand the factors affecting bank's credit multiplier.

The main purpose of this thesis is to examine the factors that control the commercial bank's credit multiplier. The factors that determine main elements of the multiplier are also studied.

Multiple regression analysis was used to construct the model explaining the relationship between bank's credit and factors affecting it. Models that described the relationship between various elements of credit multiplier and factors determining demand for money of people and commercial bank were also constructed. Data for the study is the yearly data from the Bank of Thailand between 1977-1996.

The results of the study are as follow :

- a) The most important factor affecting bank's credit multiplier is per capita income, follows by inter-bank rate, inflation rate, average interest rate, and the financial liberalization, respectively.
- b) People's demand for money depends on per capita income, government bond rate, and interest rate of saving account.
- c) People's demand for demand deposit depends on per capita income, minimum overdraft rate, and inflation rate.
- d) People's demand for time and saving deposit depends on per capita income, and inflation rate.
- e) Commercial bank's demand for excess reserve holding depends on interbank rate and excess reserve holding of the previous year.