ABSTRACT

Thesis Title : SET Index As a Leading Indicator of The Thai Economy

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The objective of this study is to test whether securities prices can be used as a leading indicator of Thai economy. Cointegration techinque was employed to test the cointegrating relationship between the SET index and Thai economy, represented by real GDP. Causal relationship between these two variables was also investigated by using Granger's causality test.

Monthly data during January 1995 and April 2000 was used in this study. Since real GDP was collected on a quarterly basis by the Bank of Thailand, it had to be converted into monthly data and adjusted to neutralize the seasonal effect by using seasonal adjustment techniques. Both the SET index and real GDP data were tested for their stationary status by using the Augmented Dickey-Fuller Tests: ADF.

The result of the study indicated that both variables were stationary at first difference. The study also found that there was cointegrating relationship between the SET index and real GDP. The causality test shown feedback relationship between the two variables which meant that the SET index and real GDP could be used as leading indicator of each other.

The test also indicated that the SET index could be used to forecast real GDP by 5 months in advance, whereas the previous data of real GDP which lagged between 1 to 4 months could be used to forecast the SET index ahead by 1 month.