ABSTRACT

Thesis Tittle : Fiscal Policy and Inflation in Thailand

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Degree Sought : Master of Economics

Academic Year : 2000

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Budget deficit is the result of fast increase in government expenditure, While its revenue grows at slower rate. Under the circumstance, the government has to borrow from domestic and foreign financial markets to correct the deficit. In so doing, it affects money supply, rate of inflation, and other economic variables such as private consumption, investment, export, import, taxation, wealth of private sector, and GDP per capita.

The objective of the thesis is to analyze the effect of government budget deficits on money supply and price level in Thailand. Multiple regression analysis was used to find the empirical results, using time-series data during 1970-1997

The study found that greater government budget deficit not the real cause of increasing money supply and price level during the period under studied. Government borrowing to correct the budget deficit had less

pressure on inflation because its borrowing sources were commercial bank and Government Saving Bank rather than the Bank of Thailand.

The fast expansion of money supply in 1986 due to high economic growth did not cause inflation or price instability because most of the money supply increased were absorbed by high demand for holding cash in that period. The high rate of inflation was, therefore, caused by other factors such as rising oil price during oil crisis, very high rate of economic growth, etc.