

ABSTRACT

Thesis Title : Exchange Rate Forecasting Models

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After changing the exchange rate regime to managed float in mid 1997, Thai currency began to fluctuate more than before. As we know that the exchange rate of Thai Baht/U.S. Dollar is very important factor to Thai international activities, therefore, accurate forecasting models for the exchange rate will be most needed.

The purposes of this research are to study macroeconomic factors which influence the movement of foreign exchange rate and to construct the exchange rate forecasting models. Two approaches are introduced in forecasting, the fundamental analysis is used to forecast the long run exchange rate while the technical analysis is used to forecast the exchange rate in the short run. The technical analysis can be easily performed, since it used only past data in the analysis. The future trend of exchange rate can be obtained through the developed software program which is on-line 24 hours. It is enable to analyse the foreign exchange market instantaneously. This research try to construct models from varies Theories about exchange rate determination. There are three major models as the following:

1. Structural Modes: consists of balance of payment model, purchasing power parity model and monetary models.

2. Time series models: consists of random walk model and autoregressive model.

3. Error correction model.

The results of this study show that relative price, relative money supplies and expected long run inflation differential have influenced exchange rate in the same direction, while relative levels of real income effected exchange rate in the opposite direction. Moreover, relative interest rate has slightly effected exchange rate. The balance of payment model is related exchange rate in the opposite direction while the monetary models is related to exchange rate in the same direction

As for forecasting ability among these models, the error correction model is the most accurate forecasting model. Between time series and structural models, time series models can forecast more accurate than structural models.