

ABSTRACT

Thesis Title : The Stability of Foreign Exchange Market of Thailand

Student's Name : Mr. Panya Thanhakanchanakul

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Advisory committee :

1. Assoc. Prof. Dr. Kesorn Homkachorn Chairperson

2. Assoc. Prof. Dr. Ruangthong Chairprasop

3. Assoc. Prof. Virach Tharnasuan

The need for a foreign exchange market arises because international trade in goods services and financial assets almost always involves the exchange of different national currencies. One of the most important implications deriving from the close communication of buyers and sellers in the foreign exchange market is that there is almost instantaneous arbitrage across currencies and financial centres. The foreign exchange market is important. It relates to international investors , multinational corporations and commercial banks.

This study examines the exchange rate movements. To illustrate whether changes in spot exchange rate and forward exchange rate was the cause and effect of changes in others. The response of the foreign exchange market is the changes in exogenous variables. The procedure is particularly well suited to study vector autoregressions (VAR). Moreover, this study analyses the stability of foreign exchange market of Thailand in before and after using floating exchange rate regime.

The model of the study is the ordinary least squares (OLS) and GARCH in mean model (GARCH-M)

Conclusion from this study illustrate that before using floating exchange rate regime. The changes in the interest rate differential between baht and US. Dollar was a cause of changes in the forward premium. As changes in the forward premium was a cause of changes in the future spot exchange rate. Besides in the after used floating exchange rate regime. The changes in the forward premium was a cause of changes in the future spot exchange rate and also the changes in the future spot exchange rate was a feedback to changed in the forward premium.

Futhermore , this study illustrate that the initial effects of a shock in exogenous variables was responsed to changing expectation. Finally , it could adjust to equilibrium as well as effects of a shock in itself influencing extremely , because behavior of expectation of human must use past information for expectation. Moreover, conclusion from this study of the stability of foreign exchange market before using floating exchange rate regime , S.E. of regression sum squared residual and S.D. dependent variable are below the after using floating exchange rate regime.

However, after using floating exchange rate regime , the foreign exchange market begins to be more stabilized. It is due to monetary policy and monetary market mechanism begin to worked more efficiency after the reducing financial crisis.