

ABSTRACT

Thesis Title : A Risk Premium and A Foreign Exchange
Market Efficiency of Thailand

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The objective of this study is to examine the efficiency of Thai foreign market from the risk premium resulting in forward exchange market of U.S. dollar in Thailand. If the market has the high efficiency, the rate of depreciation must be equal to the forward premium. But, both rates are not equal because the rate of depreciation is the future event of spot rate while the forward premium is the present activity to forecast the rate of depreciation. The difference of both rate is the risk premium. By assuming the difference of both rate from error prediction, we can find the error terms from regressing the rate of depreciation on the forward premium. We assume that the characteristic of risk premium

follows Autoregressive Conditional Heteroscedasticity in mean process ((ARCH in mean). It develops from the monetary theory.

The results of the study show that the value of the risk premium is equal to 0.021268 in the short-run and 0.035396 in the long-run. The statistical hypothesis test rejects the null hypothesis of the risk premium being zero, and also the hypothesis supporting the risk premium from the efficiency market. But, there are hypothesis that are the most efficient market if we accept null hypothesis and they are the least efficient market if we reject them. In fact, there exists market uncertainty. This study will analyze the other results, such as graph, standard errors etc. The risk premium in the short-run is equal to 0.021268 and it's equal to 0.035396 in the long-run. The risk premium interval is equal to 2%-3.5%, and the standard error is equal to 0.025913 in the short-run. It is equal to 0.024457 in the long-run which is the lowest value. If the risk premium is the smallest and near zero one, the market is the most efficient market. But the forecast still is correct. This study shows that the efficiency of the foreign exchange market of Thailand, lies between the highest and the lowest efficiency. But we don't know the exact level because nobody has studied separate of market efficiency level.