ABSTRACT

Thesis Title : The portfolio balance approach to the exchange rate determination between bath and U.S. dollar

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The purposes of the thesis are to study the factors determining exchange rates between bath and U.S. dollar in accordance with the portfolio balance approach following the model of Jeffrey Frankel. Data used in this thesis are secondary quarterly data of Thailand and the United State of America during the period commencing from 1990 through 1996, and through use of the Ordinary Least Squares method of evaluation.

The study shows that all of independent variables can explain the exchange rate movement as much as 62.9%. All of coefficients are statistically significant at 99% level except the relative expected inflation rates coefficient is statistically significant at 95% level. The signs of all coefficients are correct on the base of assumption but the sign of the relative interest rate variable is not correct. The factors detemining exchange rate movement show that

1. The relative levels of national income have the most influence on exchange rates and negative relationship. When the relative levels of national income increase 1%, the change in determined exchange rate decreases by 0.283.

2. The relative money supplies have the second effect on exchange rates and positive relationship. When the relative money spplies increase 1%, the change in determined exchange rate increases by 0.079.

3. The relative domestic bonds and foreign currency denominated bonds in the hand of private agents have the third effect on exchange rates and positive relationship. When the relative of domestic bonds and foreign currency denominated bonds in the hand of private agents increase 1%, the change in determined exchange rate increases by 0.052.

4. The relative interest rates have the fourth effect on exchange rates and positive relationship. When the relative interest rates increase 1%, the change in determined exchange rate increases by 0.007.

5. The relative expected inflation rates have the least effect on exchange rates and positive relationship. When the relative expected inflation rates increase 1%, the change in determined exchange rate increases by 0.001.