

ABSTRACT

Thesis Title : The Monetary Approach to the Determination of Thai
Exchange Rate
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Thailand is an open economy, small and developing country. The proportion of foreign trade to gross domestic product is very high. At present stage of economic development, Thailand depends heavily on capital goods and fund from outside sources. As a consequence, it is necessary for the country to determine the proper Baht exchange rates or foreign exchange rates. The determination of Thai exchange rate will have certain impact to international transaction and Thai economic development.

Presently, floating exchange rate is widely used among various countries of the world. The value of money of each country in the International Monetary System has to adjust all the time. It is, therefore, necessary to determine the exchange rates accordingly. The main objective of this thesis is to find important factors in determining Thai exchange rates.

This study commences with an evolution of the world and Thai exchange rates system, followed by a review of related literature. The summary of the results are:

- Domestic money supply has positive relationship with Thai currency value (Baht). If Thai money supply increases at higher rate than foreign money supply, Thai currency will be devalued or the exchange rate will increase.

Increasing domestic money supply when there is full employment in Thai economy will cause domestic prices higher than international prices. As a result, imports from other countries will increase. Deficit in balance of trade and balance of payment will follow, and finally, devaluation of Baht may take place.

- An increase in real income will increase the volume of production of goods and services. Domestic prices will be lower than international prices which will improve exporting capacity. Foreign currencies will flow into the country. Revaluation of Thai currency-Baht or decreasing in exchange rates may occur.

- Thai interest rate is normally higher than foreign interest rates, which will increase the flow of capital into the country. Thus, a decrease in exchange rate or revaluation of Baht will follow.

- Changes in the exchange rate in previous quarter will effect the present exchange rate in the same direction.