

## ABSTRACT

Thesis Title : The Study of Relationship between inflation and Household Saving

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The task of this thesis is to study the correlation of inflation and household saving in the case of Thailand. Theoretically, given a higher level of inflation, the less saving and the more consumption will be. Based on National Account, inflation had an insignificant effect on household saving in Thailand during 1970 to 1994. This is because the household saving was not adjusted to the common standard of purchasing power to be real value. The real value of saving is largely determined by subtracting real value of assets from nominal value of saving. However, there were some studies analyzing the correlation of inflation and household saving by calculating inflationary effect. Given the result that the real asset value adjusted by influence of inflationary expectation does not decline as much as entire inflation but partly.

The study is organized into two parts. Part I deals with the basic concept of inflation forecast. Major factors that have influence on inflation changes are examined to determine the most suitable factor so as to significantly explain the

inflationary effect. Part II deals with the calculation of the equation of real asset value in order to examine how correlation of real asset value and consumption in the previous years effects a change of real saving . The selected data are in 1970 to 1994. Methodology is Ordinary Least Square.

The result of estimate shows that two major factors that have influence on inflation change are the flux of money supply (LDM2) and import price (LDIMP). The significant is satisfactory.

In terms of real saving forecast it is illustrated that at the first calculation, there is serial correlation in the equation resulting in underestimated values of the coefficient and the significant. As a result, the examination of correlation at the level of 1, 3 and 5 at a period of times and the revision of equation are pursued. The equation is readjusted by using specific variable to solve serial correlation problem in the model.

The result of revising the serial correlation problem indicated there are higher value of the coefficient and the significant as well as no serial correlation in the equation. It can be summarized that the positive correlation between inflation and household saving results from over estimate. It is noted that there is high degree of consumers , around 20.4%, who increase a lot of expenses because they don't really understand the effect of inflation on expenditure behavior.