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SURIYA THIENPHAISARN : THE ADJUSTMENT OF GOVERNMENT REVENUE AND
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The objective of this thesis is to study the adjustment of government revenue and expenditure to inflation in Thailand. Study done by Aghevli and Khan (1978) set the hypothesis that government deficits would effect on inflation through the monetary expansion from deficits financing. Consequently, inflation would cause the adjustment of government expenditure to keep its real expenditure level constant. Moreover, the study showed that the adjustment of government expenditure was faster than those of government revenue, resulting in government deficits and hence inflation. This created a cycle of inflation and budget deficits. So the relationship between money and inflation was a "Two-Way Causality". The hypothesis was consistence to Thailand test between 1961-74. However, by adjusting the methodology of Aghevli and Khan to consist with Thailand budgeting, the hypothesis was rejected for the period of 1982-95. Because Thai government revenue is sensitive to inflation more than government expenditure and the elasticity of government revenue is higher than government expenditure. Thailand has a conservative government expenditure policy since 1982 because of the Treasury Reserves Crisis in 1980-81. Combining with economic boom during 1988-95, unplanned government budget came into surplus. This led to low monetary expansion and thus low inflation rates.

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