

Nattavadee Pannoi 2012: The Impacts of Capital Flows on Exchange Rate.

Master of Economics, Major Field: Economics, Department of Economics.

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The objective of this study is to estimate the optimal capital inflows to Thailand, based on the research of Bacchetta and Wincoop (1998), and to analyze the impact of capital flows gap on exchange rate. The capital flows gap was calculated from the steady state of capital flows and actual inflows. After that, the Structural Vector Autoregressive Model (SVAR) was employed to analyze the impacts of deviation from the steady state of capital flows on exchange rate, from the first quarter of 1997 to the fourth quarter of 2009.

The empirical results show that the volume of actual capital inflows were higher than the volume at steady state. Based on the impulse response function, the capital flows gap shocks generate a positive relationship on exchange rate. We also find that the variance of exchange rate was affected by variance of capital flows gap, higher proportion than the variance of other variables.

In conclusion, the deviation from the steady state of capital flows causes the fluctuation in exchange rate. Thus, Bank of Thailand should perform the policies to control the volatility of capital inflows in order to stabilize the exchange rate.

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