Suphaluk Somjid 2014: Inflation Rate and Rate of Return on Stock Exchange of Thailand Index. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Mr. Thana Sompornserm, Ph.D. 192 pages.

The objectives of this research are to 1) study the general characteristics of inflation in Thailand and the rate of return on SET index and industry group indices from The Stock Exchange of Thailand, and 2) to study the relationship between inflation and the rate of return on SET index and eight groups of industry group indices in both long-run and short-run. Data are analyzed by using monthly time series, starting from January 2004 to December 2013. The analysis is based on granger causality test, cointegration test for longrun analysis, and Vector Error Correction Model (VECM) for short-run analysis..

Granger causality test shows that inflation rate causes a change in the rate of return on SET index and those eight of industry group indices. Moreover, the results of cointegration test indicate that inflation rate has negative long-run relationship with the rate of return on SET index and six groups of industry group indices, namely, agro & food industry group, consumer products group, financials group, industrials group, property & construction group, and resources group. An increase of inflation rate makes manufacturing costs become higher, which results in the decline of profit, dividend, stock price and the rate of stock return. While some industries gain benefit from higher inflation which lead to an increase in stock price but in diminishing rate. Thus, it also results in negative effect on the rate of stock return.

The VECM model is applied to show the short-run adjustment a change of economic variables such as inflation rate, exchange rate, money supply, and manufacturing production index (MPI). The results suggest that the rate of return on industrials group will have the fastest adjustment toward its long-run equilibrium with the speed of adjustment at 103 % per period. While the rate of return on agro & food Industry group will have the slowest adjustment toward its long-run equilibrium with the speed of adjustment at 30.7 % per period.

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Thesis Advisor's signature

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