

Tassaya Vorasaoharit 2011: The Role of Financial Development in Economic Growth of Thailand. Master of Economics, Major Field: Economics, Department of Economics.
Thesis Advisor: Ms. Supanee Harnphattanusorn, Ph.D. 97 pages.

This paper studies the development of Thailand financial system and the relationship between financial system development indicators and economic growth. The financial system structure is divided into money market (commercial banks) and capital market (stock exchange market).

According to the development of Thailand financial system, the results show that money market has developed before capital market. Before 1997, Thailand financial system relied on commercial banks. After 1997, the financial structure has been changed. For supporting economic growth, the financial sector master plan and the capital market development plan have implemented to enhance the efficiency and stability of the financial system.

Empirical analysis between the financial system development and economic growth is estimated by Generalized Method of Moments (GMM) using quarterly data from the first quarter of 2002 to the fourth quarter of 2010, 36 quarters. The results show that money market sector represented by ratio of commercial bank private sector credit to GDP and ratio of commercial bank assets to total assets of banking system cause economic growth. Capital market sector represented by the ratio of market value of the Stock Exchange of Thailand (SET) to GDP and the growth rate of SET index cause economic growth. But the study shows the negative relationship between SET turnover ratio and economic growth. Additionally, an investment, employment ratio, and ratio of goods and services export to GDP have positive effect on economic growth.

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