

ABSTRACT

This thesis studies the possibility of the Bank of Thailand in regulating asset prices in stock market and property market by using cointegration method and granger causality test. It is found that the Bank of Thailand should pay attention to property price rather than stock price since the change in the property market will be gradual and suit for policies which need time to adjust. Moreover, the recovery of the market is quite slow, and the impact is relatively larger than the effect of stock market bust.

In addition, Hodrick-Pascott (HP) Filter is used to determine the deviation of asset prices from their trend or the bubble. In stock market, it is found that the size and duration of bubbles are both significant. If the proportion of the change in bubble is large and lasts more than 15 months, this study suggests that it is worthwhile for the Bank of Thailand to look into. And if the duration is more than 3 years, the bubble is most likely to be busted. In property market, it is unclear at which size or the duration of bubbles should be aware of due to the limitation of information.

Finally, vector autoregressive model (VAR) is employed to find the effectiveness of monetary policy transmission channels. It indicates that the Bank of Thailand should employ interest rate channel to reduce the fluctuation of the asset prices. This is in line with the Bank of Thailand which has started to determine factors in financial market since 2000, and finds that using monetary base targeting is less effective than using inflation rate targeting since the relationship of money supply and the economic expansion after crisis in 1997 is not stable.