

## ABSTRACT

Abstract of thesis submitted to the Graduate School of Maejo University in partial fulfillment of the requirements for the degree of Master of Business Administration in Business Administration

### ECONOMIC FACTORS INFLUENCING DEPRECIATION OF THAI BAHT BETWEEN 1988-1997

BY

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The objectives of this research were to investigate economic factors influencing depreciation of Thai Baht during 1988-1997 and to find out a theoretical guideline to obtain an optimal exchange rate by using the calculation of Effective Exchange Rate and the theory of Purchasing Power Parity was used to find out consumer price index. The secondary data used in this research were monthly financial-economic statistics of the Financial-Economic Office, the Ministry of Finance, as well as documents of the Bank of Thailand.

The results revealed that the factors most influencing depreciation of Thai Baht at the significance level of 0.01 or at the 99% confidence interval was spot rate, which was correlated with the depreciation and which had the coefficient of determination 1 ( $R^2 = 1$ ); this was in accordance with the Exchange Rate Parity Theory. Thus, the spot rate was excluded and the study was limited to the other variables. At the significance level of 0.01 or at the 99% confidence interval, balance of payments

and interbank rate were found to be the factors most influencing the depreciation of Thai Baht. The coefficient of determination was 0.419 ( $R^2 = 0.419$ ); this means that balance of payments and interbank rate could correctly forecast 41.9% of depreciation.

From the calculation of Effective Exchange Rate which was weighted by import and total trade in Nominal Exchange Rate (defined in value of Baht /1 unit of foreign exchange current rate) and the consideration of the top ten important countries, total trade volume in the year 1988 by using monthly data of 1988 based on 1986 base year price-index, it was found that the trend of the index of Thai Baht weighted by import and total trade was in the same direction. The index of Thai Baht was likely to decrease since the beginning of the year and would reach 100 around the end of the year.

Theory of Purchasing Power Parity weighted by related price index in terms of value of Thai Baht /1 \$ US was found to be very difficult to put into practice due to differences in varieties of goods in different countries.

There was also a possibility of looking at the graphic trend of Thai consumer price index of 1995 base year since the Thai Baht value was optimal in 1995. The increasing trend of value started in late 1995. The depreciation of Thai Baht overshot after the managed-float system and the consumer price index emerged rapidly thereafter.