ABSTRACT

Abstract of thesis submitted to the Graduate School of Maejo University in partial fulfillment of the requirements of the degree of Master of Science in Agricultural Economics

AN ANALYSIS OF THE EXTERNAL STABILITY OF THAILAND : EQUILIBRIUM OF BAHT IN FOREIGN EXCHANGE MARKET

By

CHOOSRI PATIPATSAKUN

June 2000

Chariman: Assistant Professor Banchar Triwittayakun

Department/Faculty: Department of Agricultural Economics and Cooperatives, Faculty of Agricultural Business

The objective of this study was to find out factors affecting exchange rates leading to external stability. Secondary annual data during 1957 - 1997 was used. The exchange rate of Baht per U.S. Dollar was employed in foreign exchange market and computed by means of multiple regression of the ordinary least square method (OLS) and reduced according to the balance of the payment theory. The factors affecting the exchange of Baht equilibrium according to the theory were 1) price level (p) : variables included Consumer Price Index of Thailand (CPI), Wholesale Price Index of Thailand (WPI), Consumer Price Index compared between Thailand and the United States and Wholesale Price Index compared between Thailand and the United States; 2) Income (y) : variables included Gross National Product of Thailand (GNP), Real Gross National Product of Thailand (Real GNP), Real Gross National Product Index of Thailand and Real Gross National Product compared between Thailand and the United States; and 3) Interest rate (r) : variables included Discount Rate of Thailand and Difference in Discount Rate between Thailand and the

United States. The analysis revealed 3 types of variables: 1) Present Variables, 2) Lag Variables and 3) Differencing Variables. The total of 96 models were used in the analysis.

The results of the analysis indicated the present variables affecting the equilibrium of Baht in foreign exchange market as follows :

(1) consumer price index which represented the price levels of goods (p) was directly related with the exchange rate ($p\uparrow \Rightarrow E\uparrow$) ;

(2) real gross national product index compared between Thailand and the United States which represented income (y) was inversely related with the exchange rate ($y\uparrow \Rightarrow E\downarrow$) ; and

(3) discount rate which represented the interest rate (r) was inversely related with the exchange rate ($r\uparrow \Rightarrow E\downarrow$).