

Chanthima Rodkhwan 2010: Response of Commercial Bank Lending Rate to Change of Policy Interest Rate. Master of Economics, Major Field: Economics, Department of Economics. Thesis Advisor: Assistant Professor Arunee Punyasavatsut, Ph.D. 131 pages.

The main purpose of this study is to identify the impacts of bank characteristics such as: the size of the bank, the loan risk level and the portion of fee on the response of commercial banks' lending rate to the change of policy interest rate. The data used here is secondary quarterly data including 10 commercial banks from 3<sup>rd</sup> quarter 2000 to 4<sup>th</sup> quarter 2007. The data was analyzed through panel data with interaction terms between bank characteristics and policy interest rate.

The findings show that some characteristics of commercial banks make them adjust their lending rate differently when the policy interest rate changes. The large banks and the banks with a lower level of loan risk adjust their lending rate less than the small banks and the banks with a higher level of loan risk, when the policy interest rate changes. In case of a portion of fee income, another characteristic, the result is not statistically significant.

The results of this research prompt a recommendation. To launch a monetary policy through interest rate channel, the commercial banks lending rate is supposed to be adjusted in response to changes in policy interest rate. But this research found that the response of banks varies, depending on different characteristics of the banks. Therefore, the characteristics obtained from this research should be considered for laying a more effective monetary policy.

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