Macroeconomic modelling and appraisal of alternative economic development policies for Thailand

Bhantinee Sootsukon

University of Wollongong

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MACROECONOMIC MODELLING AND APPRAISAL
OF ALTERNATIVE ECONOMIC DEVELOPMENT
POLICIES FOR THAILAND

This thesis is submitted in fulfilment of the requirements for the award of the degree of

Doctor of Philosophy

from

THE UNIVERSITY OF WOLLONGONG

by

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The University of Wollongong, AUSTRALIA, 1996
AUTHOR’S CERTIFICATION

I certify that the substance of this thesis has not already been submitted for any degree and is not being currently submitted for any other degrees.

I certify that any help received in preparing this thesis, and all sources used have been acknowledged in this thesis.

Bhantinee Sootsuikon
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CHAPTER 1  INTRODUCTION

1.1 Background to the Study.........................................................1

1.2 Objectives of the Study.......................................................12

1.3 Methodology

1.3.1 Data Sources.................................................................14

1.3.2 Method of Study............................................................15

1.4 Organisation of the Study....................................................18

CHAPTER 2  AN OVERVIEW OF THAILAND’S MACROECONOMY

2.1 Introduction.............................................................................20

2.2 Economic Performances in response to the two major oil shocks : 1971-1994

2.2.1 The base period (1971-1980).............................................23

2.2.2 The adjustment period (1981-1985).................................26

2.2.3 The boom period (1986-1994)..........................................28

2.3 Policy Intervention related to the two major oil shocks : 1971-1994

2.3.1 Fiscal Policy.................................................................32

2.3.2 Monetary Policy...........................................................37

2.3.3 Exchange rate Policy......................................................39

2.4 Current problems facing the Thai economy

2.4.1 Industry Transition.........................................................40

2.4.2 Foreign Trade and Investment...........................................45
2.5 Key Issues response to the current problems

2.5.1 Financial Reform .............................................. 49
2.5.2 Trade Liberalisation ........................................... 50
2.5.3 Investment Reform ............................................ 52
2.5.4 Public Enterprise Issues ................................. 52

2.6 Summary and Conclusions .................................... 53

CHAPTER 3 THE THEORY OF THE RESOURCE RELATED MACROECONOMIC MODELS

3.1 Introduction ..................................................... 56
3.2 Comparative Static Analysis Arising from Oil Shocks ............... 58
3.3 A Dynamic Analysis Arising from Oil Related Shocks

3.3.1 Short-run Models ........................................... 66
3.3.2 Long-run Models ............................................ 70

3.4 The Major Similarities and Differences of the Basic Models

3.4.1 Steady State Equilibrium of the Model ................. 76
3.4.2 Dynamic Stability of the Models ....................... 80

3.5 Amendments for the Thai Economy .......................... 81
3.6 Summary and Conclusions ................................. 84

CHAPTER 4 A RESOURCE RELATED MACROECONOMIC MODEL FOR A THAILAND LIKE NET OIL-IMPORTING ECONOMY

4.1 Introduction ..................................................... 87
4.2 The Major Assumptions of the Model .......................... 88
4.3 A Macroeconomic Model for a Thailand Like Net
Oil-Importing Economy ........................................... 92

4.4 Alternative Versions for the Base Model

4.4.1 Alternative Trade Liberalisation Policies ............... 100
4.4.2 Alternative Public Infrastructure Capital Spending Policies ............................................ 101
4.4.3 Alternative Financial Liberalisation Policies ............ 101
CHAPTER 5  
EMPIRICAL ESTIMATION AND BASE CASE SIMULATION OF THE MODEL

5.1 Introduction

5.1.1 Data Sources .............................................................. 108
5.1.2 Methodology ............................................................. 109

5.2 Empirical Estimation ...................................................... 114

5.3 Simulation analysis

5.3.1 Steady State Properties of the Model ............... 123

5.3.2 Adjustment Process

(a) Instantaneous Impact .................................................. 127
(b) Short Run Adjustment .................................................. 128
(c) Medium Run Adjustment ............................................. 134
(d) Long Run Adjustment .................................................. 136

5.3.3 A Comparison Between Actual Developments and the Simulation Results ................. 139

5.4 Summary and Conclusions ........................................... 147

CHAPTER 6  
ALTERNATIVE POLICY ANALYSIS

6.1 Introduction .................................................................. 150

6.2 Trade Liberalisation Policy

6.2.1 Case 1: A positive shock to the oil price

(a) Instantaneous Impact .................................................. 155
(b) Short Run Adjustment .................................................. 155
(c) Medium Run Adjustment ............................................. 157
(d) Long Run Adjustment .................................................. 162

6.2.2 Case 2: A positive shock to domestic oil requirements

(a) Instantaneous Impact .................................................. 163
(b) Short Run Adjustment .................................................. 164
6.3 Public Infrastructure Capital Spending Policy

6.3.1 Case 1: A positive shock to the oil price

(a) Instantaneous Impact ........................................... 174
(b) Short Run Adjustment ........................................... 176
(c) Medium Run Adjustment ....................................... 177
(d) Long Run Adjustment ......................................... 178

6.3.2 Case 2: A positive shock to domestic oil requirements

(a) Instantaneous Impact ........................................... 185
(b) Short Run Adjustment ........................................... 187
(c) Medium Run Adjustment ....................................... 192
(d) Long Run Adjustment ......................................... 193

6.4 Alternative Nominal Exchange Rate and Capital Market Policies

6.4.1 Case 1: A positive shock to the oil price

(a) Instantaneous Impact ........................................... 198
(b) Short Run Adjustment ........................................... 199
(c) Medium Run Adjustment ....................................... 202
(d) Long Run Adjustment ......................................... 203

6.4.2 Case 2: A positive shock to domestic oil requirements

(a) Instantaneous Impact ........................................... 210
(b) Short Run Adjustment ........................................... 210
(c) Medium Run Adjustment ....................................... 214
(d) Long Run Adjustment ......................................... 214

6.5 Summary, Conclusions and Policy Implications 221

CHAPTER 7 SUMMARY, CONCLUSIONS, POLICY IMPLICATIONS, AND FURTHER STUDIES

7.1 Summary and Conclusions ........................................... 224

7.1.1 General Review of the Study .............................. 224
7.1.2 Developing A Macroeconomic Model .................... 225
7.1.3 Estimation of the Model ................................. 228
# List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Period-Average Key Economic Indicators for Thailand</td>
<td>2</td>
</tr>
<tr>
<td>1.2</td>
<td>The Growth Rate of Real GDP (%) and Expenditures</td>
<td>3</td>
</tr>
<tr>
<td>1.3</td>
<td>Real Growth Rate and Key Economic Indicators: 1981-1994</td>
<td>5</td>
</tr>
<tr>
<td>2.1</td>
<td>Sectoral Share of GDP (per cent)</td>
<td>21</td>
</tr>
<tr>
<td>2.2</td>
<td>Thailand Economic Performances: 1971-1980</td>
<td>25</td>
</tr>
<tr>
<td>2.3</td>
<td>Thailand Economic Performances: 1981-1994</td>
<td>26</td>
</tr>
<tr>
<td>2.4</td>
<td>Thailand Economic Performances: 1971-1994</td>
<td>30</td>
</tr>
<tr>
<td>2.5</td>
<td>Major Macroeconomic Indicators: 1971-1994</td>
<td>31</td>
</tr>
<tr>
<td>2.7</td>
<td>Percentage Distribution and Growth Rates of National Government Actual Revenues Classified by Major Sources: 1985-1993</td>
<td>35</td>
</tr>
<tr>
<td>2.8</td>
<td>Government External Debt: Thailand</td>
<td>36</td>
</tr>
<tr>
<td>2.9</td>
<td>Thailand: Monetary and Fiscal Discretionary Policies</td>
<td>38</td>
</tr>
<tr>
<td>2.10</td>
<td>Thailand: Dates and Magnitudes of Devaluation</td>
<td>40</td>
</tr>
<tr>
<td>2.12</td>
<td>Major Export Sectors of Thailand</td>
<td>46</td>
</tr>
<tr>
<td>2.13</td>
<td>Major Import Sectors of Thailand</td>
<td>46</td>
</tr>
<tr>
<td>2.14</td>
<td>Net inflows of Direct Foreign Investment: Thailand</td>
<td>48</td>
</tr>
<tr>
<td>3.1</td>
<td>A Summary of the Alternative Dynamic Models Assumptions</td>
<td>77</td>
</tr>
<tr>
<td>3.2</td>
<td>A Summary of the Steady States Properties of the Models: The Case of a 10% Unanticipated and Permanent Increase in the World Price of Oil</td>
<td>79</td>
</tr>
</tbody>
</table>
Table 4.1 List of Symbols using in the Base Model .................................................. 94
Table 5.1 Parameters used in the Base Case Model ........................................... 110
Table 5.2 Summary of Unit Roots Test for the Relevant Variables ................. 113
Table 5.3 Two Stage Least Squares Estimated Coefficients and Confidence Intervals ................................................................. 115
Table 5.4 Parameters Chosen for the Base Case Simulation (1971.1-1980.4) .............................................................. 121
Table 5.5 Parameter Values used in the Simulation Analysis ....................... 124
Table 5.6 Simulation Results from the Base Case Model (% deviation from the baseline to the steady state) ............................... 126
Table 6.1 Steady State Properties of the Model for a 1% Increase in the Price of Oil in Conjunction With Various Trade Policies (% deviation from the base value) ................................................. 154
Table 6.2 Steady State Properties of the Model for a 1% Increase in Domestic Oil Requirements in Conjunction With Various Trade Policies (% deviation from the base value) ......................... 165
Table 6.3 A Summary of Altering the Public Infrastructure Capital Spending Policy ......................................................................... 173
Table 6.4 Steady State Properties of the Model for a 1% Increase in the Price of Oil in Conjunction With Various Public Infrastructure Spending Policies .................................................. 175
Table 6.5 Steady State Properties of the Model for a 1% Increase in Domestic Oil Requirements in Conjunction With Various Public Infrastructure Spending Policies (% deviation from the base value) ........................................... 186
Table 6.6 Alternative Nominal Exchange Rate and Capital Market Policies ......................................................................................... 195
Table 6.7 Steady State Properties for Alternative Nominal Exchange Rate Regimes and Capital Market Policies in Conjunction With a 1% Increase in the Price of Oil .............................................. 197
Table 6.8 Steady State Properties for Alternative Nominal Exchange Rate Regimes and Capital Market Policies in Conjunction With a 1% Increase in Domestic Oil Requirements ........................................... 212
List of Figures

Figure 2.1  Thailand : Trend Real GDP Growth Rate : 1971-1984........ 39
Figure 3.1  Aggregate Demand and Aggregate Supply Equilibrium........ 59
Figure 3.2  Oil Price Shock in the AD-AS Model................................. 60
Figure 3.3  An Adjustment to the Oil Price Shocks Using the AD-AS Model................................. 61
Figure 3.4  An Adjustment to the Oil Price Decrease in the AD-AS Model................................. 62
Figure 5.1  Domestic inflation rate Adjustment in the base case........ 129
Figure 5.2  The real exchange rate Adjustment in the base case........ 129
Figure 5.3  The non-oil trade balance Adjustment in the base case...... 130
Figure 5.4  Demand for non-oil output Adjustment in the base case..... 130
Figure 5.5  Real income Adjustment in the base case......................... 131
Figure 5.6  Private physical capital stock Adjustment in the base case.. 131
Figure 5.7  Foreign asset stocks Adjustment in the base case............. 132
Figure 5.8  Domestic private sector real wealth Adjustment in the base case........................................ 132
Figure 5.9(a)  Real Exchange Rate : Comparison between the actual developments and the simulation results from the unanticipated oil price increases by 1% 1973-1975......... 141
Figure 5.9(b)  Real Exchange Rate : Comparison between the actual developments and the simulation results from the unanticipated oil price increases by 1% : 1979-1981......... 141
Figure 5.10(a)  Domestic Inflation Rate : Comparison between the actual developments and the simulation results from the unanticipated oil price increases by 1% : 1973-1975......... 142
Figure 5.10(b)  Domestic Inflation Rate: Comparison between the actual developments and the simulation results from the unanticipated oil price increases by 1%: 1979-1981 .......... 142

Figure 5.11(a)  Real Income: Comparison between the actual developments and the simulation results from the unanticipated oil price increase by 1%: 1973-1975 .......... 144

Figure 5.11(b)  Real Income: Comparison between the actual developments and the simulation results from the unanticipated oil price increases by 1%: 1979-1981 .......... 144

Figure 5.12(a)  Current Account Deficit: Comparison between the actual developments and the simulation results from the unanticipated oil price increases by 1%: 1973-1975 .......... 145

Figure 5.12(b)  Current Account Deficit: Comparison between the actual developments and the simulation results from the unanticipated oil price increase by 1%: 1979-1981 .......... 145

Figure 6.2.1 (a)  Domestic inflation rate adjustment to trade policy response to an increase in the price of oil .......... 158

Figure 6.2.1 (b)  The real exchange rate adjustment to trade policy response to an increase in the price of oil .......... 158

Figure 6.2.1 (c)  The non-oil trade balance adjustment to trade policy response to an increase in the price of oil .......... 159

Figure 6.2.1 (d)  Demand for non-oil output adjustment to trade policy response to an increase in the price of oil .......... 159

Figure 6.2.1 (e)  Real income adjustment to trade policy response to an increase in the price of oil .......... 160

Figure 6.2.1 (f)  Physical private capital stock adjustment to trade policy response to an increase in the price of oil .......... 160

Figure 6.2.1 (g)  Foreign asset stocks adjustment to trade policy response to an increase in the price of oil .......... 161

Figure 6.2.1 (h)  Domestic private sector real wealth adjustment to trade policy response to an increase in the price of oil .......... 161

Figure 6.2.2 (a)  Domestic inflation rate adjustment to trade policy response to an increase in domestic oil requirements .......... 169
Figure 6.2.2 (b) The real exchange rate adjustment to trade policy response to an increase in domestic oil requirements.................................................. 169

Figure 6.2.2 (c) The non-oil trade balance adjustment to trade policy response to an increase in domestic oil requirements.................................................. 170

Figure 6.2.2 (d) Demand for non-oil output adjustment to trade policy response to an increase in domestic oil requirements.................................................. 170

Figure 6.2.2 (e) Real income adjustment to trade policy response to an increase in domestic oil requirements.................................................. 171

Figure 6.2.2 (f) Private physical capital stock adjustment to trade policy response to an increase in domestic oil requirements.................................................. 171

Figure 6.2.2 (g) Foreign asset stocks adjustment to trade policy response to an increase in domestic oil requirements.................................................. 172

Figure 6.2.2 (h) Domestic private sector real wealth adjustment to trade policy response to an increase in domestic oil requirements.................................................. 172

Figure 6.3.1 (a) Domestic inflation rate adjustment to public infrastructure capital spending policy response to an increase in the price of oil.................................................. 179

Figure 6.3.1 (b) The real exchange rate adjustment to public infrastructure capital spending policy response to an increase in the price of oil.................................................. 179

Figure 6.3.1 (c) The non-oil trade balance adjustment to public infrastructure capital spending policy response to an increase in the price of oil.................................................. 180

Figure 6.3.1 (d) Demand for non-oil output adjustment to public infrastructure capital spending policy response to an increase in the price of oil.................................................. 180

Figure 6.3.1 (e) Real income adjustment to public infrastructure capital spending policy response to an increase in the price of oil.................................................. 181

Figure 6.3.1 (f) Physical private capital stock adjustment to public infrastructure spending policy response to an increase in the price of oil.................................................. 181
Figure 6.3.1 (g) Foreign asset stocks adjustment to public infrastructure spending policy response to an increase in the price of oil. 182

Figure 6.3.1 (h) Domestic private sector real wealth adjustment to public infrastructure spending policy response to an increase in the price of oil. 182

Figure 6.3.2 (a) Domestic inflation rate adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 188

Figure 6.3.2 (b) The real exchange rate adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 188

Figure 6.3.2 (c) The non-oil trade balance adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 189

Figure 6.3.2 (d) Demand for non-oil output adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 189

Figure 6.3.2 (e) Real income adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 190

Figure 6.3.2 (f) Physical private capital stock adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 190

Figure 6.3.2 (g) Foreign asset stocks adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 191

Figure 6.3.2 (h) Domestic private sector real wealth adjustment to public infrastructure spending policy response to an increase in domestic oil requirements. 191

Figure 6.4.1 (a) Domestic inflation rate adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil. 205

Figure 6.4.1 (b) The real exchange rate adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil. 205
Figure 6.4.1 (c) The non-oil trade balance adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil............................... 206

Figure 6.4.1 (d) Demand for non-oil output adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil............................... 206

Figure 6.4.1 (e) Real income adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil...........................................207

Figure 6.4.1 (f) Physical private capital stock adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil................................. 207

Figure 6.4.1 (g) Foreign asset stocks adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil........................................ 208

Figure 6.4.1 (h) Domestic private sector real wealth adjustment to alternative nominal exchange rate and capital market policies response to an increase in the price of oil........................................ 208

Figure 6.4.2 (a) Domestic inflation rate adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements........................................ 216

Figure 6.4.2 (b) The real exchange rate adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements.............................. 216

Figure 6.4.2 (c) The non-oil trade balance adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements.............................. 217

Figure 6.4.2 (d) Demand for non-oil output adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements..............................217

Figure 6.4.2 (e) Real income adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements.............................. 218

Figure 6.4.2 (f) Physical private capital stock adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements.............................. 218
Figure 6.4.2 (g)  Foreign asset stocks adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements ........................................... 219

Figure 6.4.2 (h)  Domestic private sector real wealth adjustment to alternative nominal exchange rate and capital market policies response to an increase in domestic oil requirements ........................................... 219
### ABBREVIATION

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD</td>
<td>Aggregate Demand Schedule</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AFTA</td>
<td>Asean Free Trade Area</td>
</tr>
<tr>
<td>AIDS</td>
<td>The Acquired Immune Deficiency Syndrome.</td>
</tr>
<tr>
<td>APEC</td>
<td>The Asian-Pacific Economic Co-operation</td>
</tr>
<tr>
<td>AS</td>
<td>Aggregate Supply Schedule</td>
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<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
</tr>
<tr>
<td>BM</td>
<td>Buiter-Miller Model</td>
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<tr>
<td>BOI</td>
<td>Board of Investment</td>
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<td>BOT</td>
<td>Bank of Thailand</td>
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<tr>
<td>BP</td>
<td>Buiter-Purvis Model</td>
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<td>CH</td>
<td>Charles Harvie Model</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EV</td>
<td>Eastwood-Venables Model</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FEER</td>
<td>Far Eastern Economic Review</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Products</td>
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<td>GNP</td>
<td>Gross National Products</td>
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<tr>
<td>HG</td>
<td>Harvie-Gower Model</td>
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<tr>
<td>IFS</td>
<td>International Financial Statistics</td>
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<tr>
<td>IMF</td>
<td>International Monetary Funds</td>
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<td>NESDB</td>
<td>The National Economic and Social Development Board of Thailand</td>
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<tr>
<td>NICs</td>
<td>The Newly Industrialising Countries</td>
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<td>NSOT</td>
<td>The National Statistics Office of Thailand</td>
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<td>NW</td>
<td>Neary and Wijnbergen Model</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>TDRI</td>
<td>Thailand Development Research Institute</td>
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<tr>
<td>VAT</td>
<td>The Value Added Tax</td>
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</table>
ABSTRACT

The development of a long run macroeconomic model for analysing the macroeconomic consequences of the oil related shocks for a net-oil importing economy such as Thailand is a major objective in this thesis.

The model enables the identification of the ways in which the oil related shocks have been transmitted their effects to the domestic economy, and will enable the exploration of the future shocks to the Thai economy and the policy implications which flow from them. The oil related shocks emphasised in this thesis are that an increase in the price of oil and an increase in domestic oil requirements.

The model developed contained a number of key assumptions. The domestic economy produces only a non-oil output, which can be consumed domestically and is an imperfect substitute for the imported good equivalent. The price of this good is domestically determined. The deterministic framework of the model combined with economic agents possessing rational expectations, is equivalent to the case of perfect foresight. Financial markets are assumed to be in continual equilibrium, whilst non-financial markets are subject to sticky price and quantity adjustment. In addition the model developed emphasised the long run nature of adjustment process, since the oil related shocks will have a long run effect upon the Thai economy. This arises from allowing for physical capital stock accumulation and developments in the current account balance. Finally, the economy operates under a fixed nominal exchange rate, and the government exercises control over the capital market.

The model developed also provides the identification of alternative, and appropriate, governmental policy in response to the oil related shocks, in order to maintain and improve the long run economic development of the economy. Three major alternative policy options presented in this thesis are as: (1) the adoption of trade liberalisation to improve the trade performance, focusing upon a reduction in trade barriers; (2) the expansionary of public infrastructure capital stock to enhance domestic investment and to alleviate the shortage of infrastructures in Thailand, and (3) the change in nominal exchange rate from a fixed to a flexible, and the deregulation of financial markets.

The simulation results suggest that in both cases of the oil related shocks, more public capital spending can produce beneficial effects upon foreign asset stocks, private capital stock, non-oil output, real income, and domestic private sector real wealth. There is however an adverse impact upon the non-oil trade balance. This is offset by an increase in real income, causing a higher demand for imports, and consequently leading to a deterioration of the trade balance. Whilst either the adoption of a flexible nominal exchange rate and perfect capital mobility and trade liberalisation policy can produce a larger depreciation of the real exchange rate, resulting in a noticeable improvement in the trade balance, stimulating an improvement of demand for non-oil output and real income. There are however a number of losers from such policy options. These are the foreign asset stocks, private capital stock, and domestic private sector real wealth.