Total word count (excl. references): 1.395

Question 1

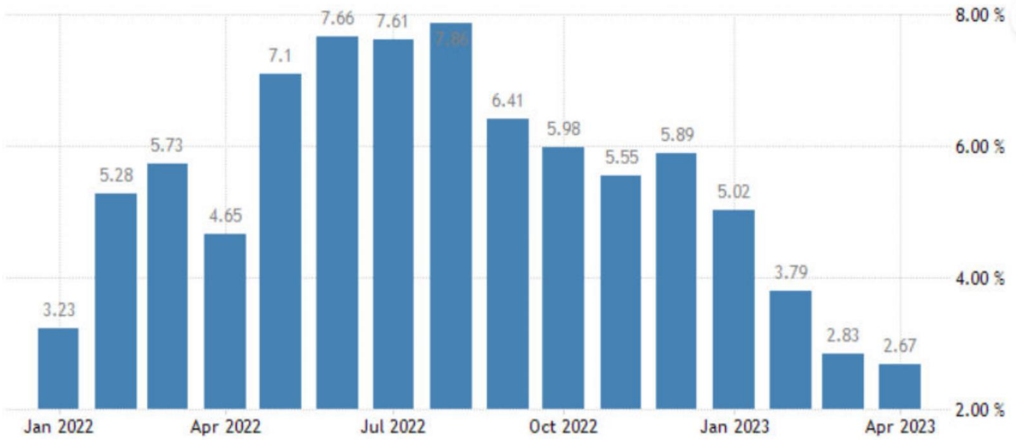

Figure 1. Thailand’s monthly data on inflation from Jan 2022 to Apr 2023

(Source: TradingEconomics (2023), adapted from Ministry of Commerce of Thailand)

Thailand's significant inflation at that time was mostly caused by rising energy and food costs. First, the European war reduced global energy supply, which increased energy costs (Bloomberg 2022). It is anticipated that this condition would continue, keeping total inflation higher than normal. Along with this, growing production costs resulted in higher food prices, and the devaluation of Thailand's currency also pushed up prices (NNT 2022).

The high inflation in Thailand during this period entails several costs for the country. One of them is a decrease in buying power, which has an impact on how easily customers can acquire necessities like products and services (Bangkok Post 2023). Businesses are now facing difficulties as growing production costs restrict profitability and may result in job losses or slow development (Arunmas 2023). It also poses difficulties for decision-makers (Bangkok Post 2022), who must deal with the repercussions of inflation on the economy and control how it affects companies and consumers.

Question 2 - Version 1

a.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Real GDP (in Tri.Baht)	7,58	7,71	7,66	8,23	8,30	8,90	9,14	9,23	9,52	9,85	10,26	10,69	10,92	10,25	10,40	N/A
GDP growth (%)	5,44	1,73	(0,69)	7,51	0,84	7,24	2,69	0,98	3,13	3,44	4,18	4,22	2,15	(6,20)	1,53	N/A
Unemployment (%)	1,18	1,18	1,49	0,62	0,66	0,58	0,25	0,58	0,60	0,69	0,83	0,77	0,72	1,10	0,99	0,86
Inflation (%)	2,24	5,47	(0,85)	3,25	3,81	3,01	2,18	1,90	(0,90)	0,19	0,67	1,06	0,71	(0,85)	1,23	6,08

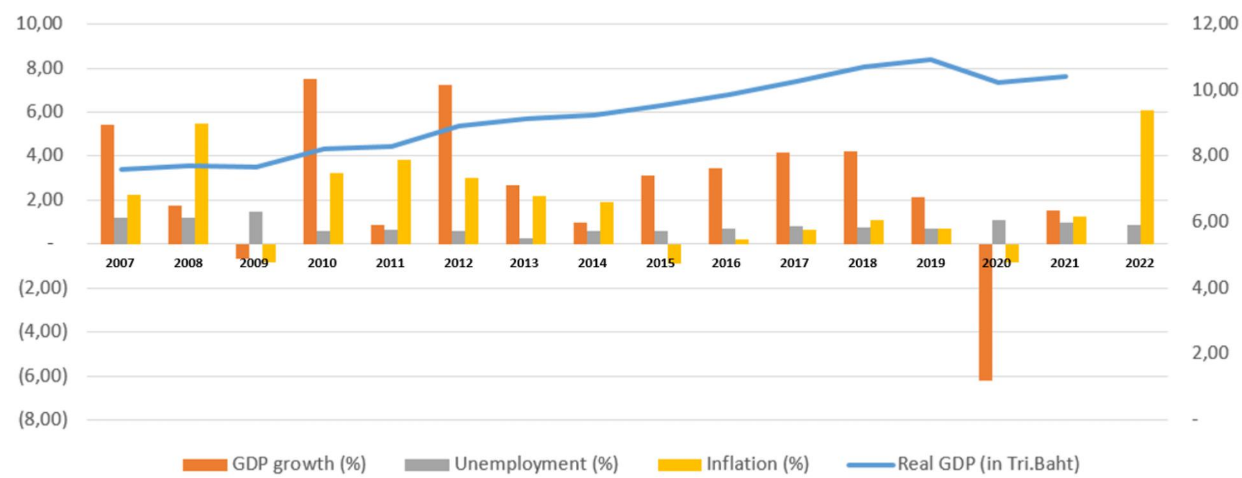

Table 1 and Figure 2. Thailand's macro-economic indicators during the 2007-2022 period *(World Bank 2023)*

Over the 2007-2022 period, Thailand's macroeconomic performance witnessed fluctuations. Real GDP had a generally upward trajectory, peaking at 10.92 trillion in 2019 before falling to 10.4 trillion in 2021. The rate of GDP growth fluctuated both positively and negatively, reaching major peaks of 7.51% in 2010 and 7.24% in 2012 while also experiencing a dramatic decrease of -6.2% in 2020. Unemployment remained very low, reaching a low of 0.25 percent in 2013. With mild swings, inflation reached peaks of 5.47% in 2008 and 6.08% in 2022, but it also experienced deflation in 2009 and 2015. Overall, the economy showed strength with positive growth and low unemployment, but experienced difficulties with inflation and occasional GDP declines.

b.

(i)

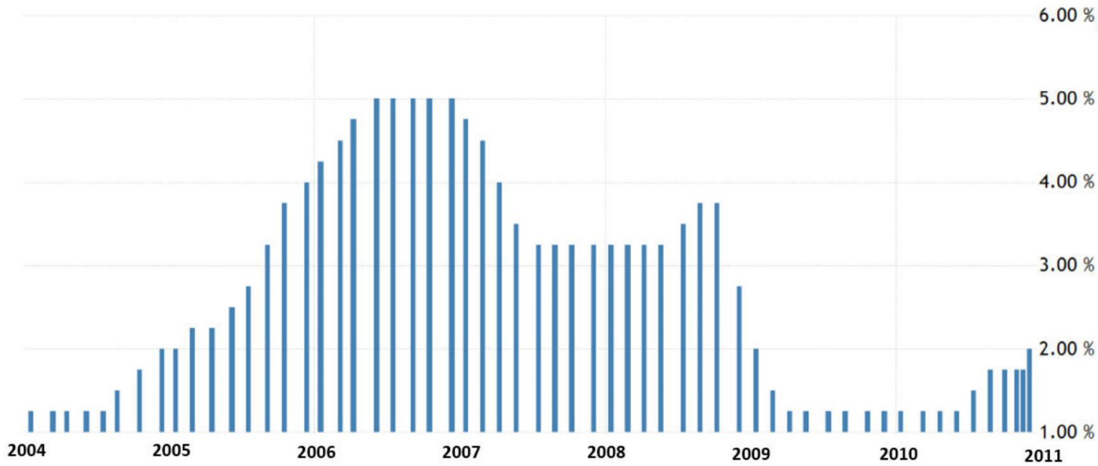

Figure 3. Thailand's key interest rates, 2004-2010

(Source: TradingEconomics (2023), adapted from Bank of Thailand)

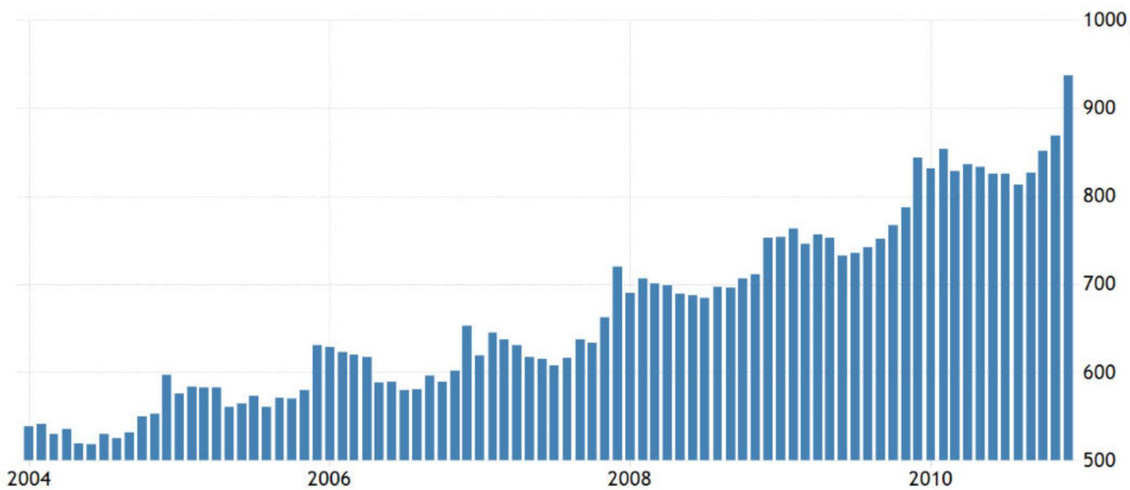

Figure 4. Thailand's M0 money supply, 2004-2010

(Source: TradingEconomics (2023), adapted from Bank of Thailand)

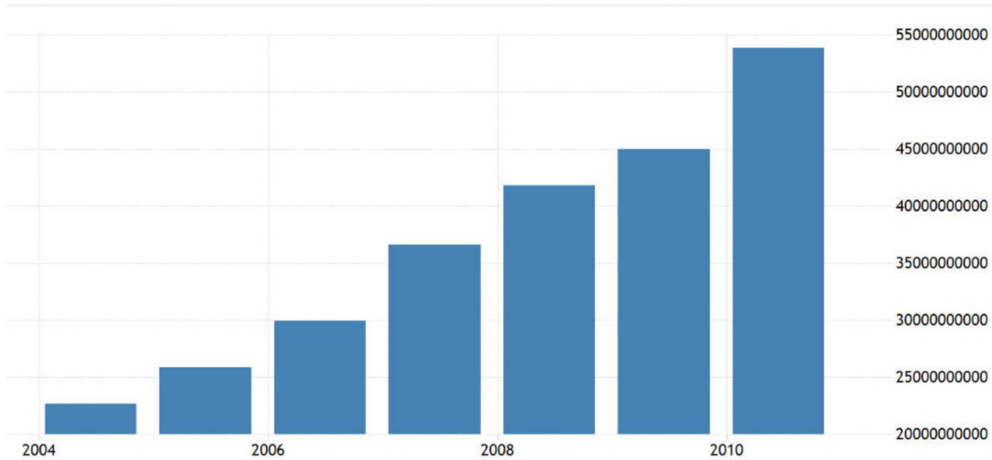

Figure 5. Thailand's government final consumption expenditure, 2004-2010

(Source: TradingEconomics (2023), adapted from World Bank)

The above shows that Thailand implemented an expansionary monetary policy during that period. Key interest rates peaked in 2006, but they quickly fell precipitously from 2007 to their record lows in 2010. Since lower interest rates make borrowing more affordable, they encourage people and firms to accept loans and invest, which spurs economic development (Lee and Werner 2018). Additionally, until 2007, the M0 money supply hardly changed, but from 2007 to 2010, it dramatically rose. According to Cermakova and Filho (2021), this move is often correlated with an expansionary money strategy that tries to increase the amount of liquidity in the economy, making money easily accessible for lending and spending. The government also consistently increased its final consumption expenditure, indicating that it had increased the money supply and increased liquidity by buying its own bonds and injecting funds into the economy.

(ii)

The aim of the expansionary monetary policy in this period was to provide an increase in the money supply, as discussed earlier.

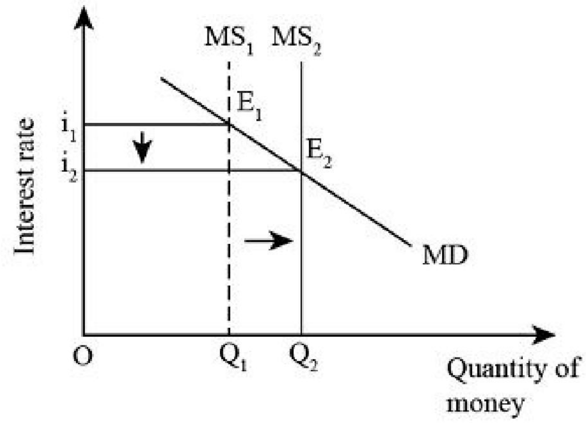

Figure 6. Impact of the expansionary monetary policy on the money market

An increase in the money supply is indicated by a rightward shift from MS1 to MS2. Money supply has increased to Q2 down the horizontal axis at the initial interest rate of i1, while money demand is still at Q1. As a result, there will be an adjustment to the reduced interest rate, ultimately decreasing interest rates.

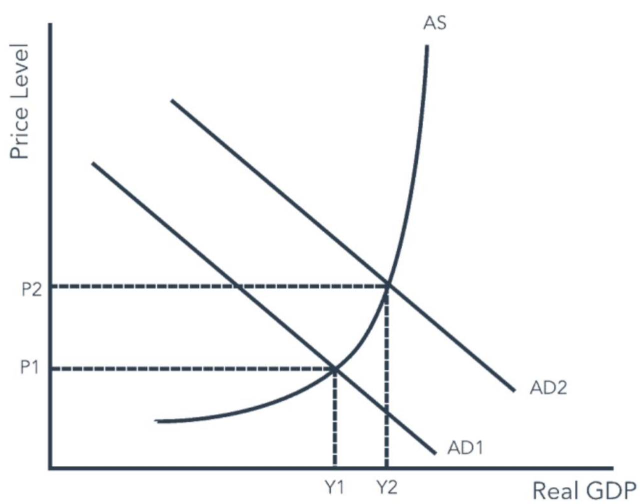

Figure 7. Impact of the expansionary monetary policy on the AD-AS diagram

Figure 7 illustrates how an expansionary monetary policy boosts the money supply and reduces interest rates to promote borrowing and spending. Spending by consumers and businesses increases as a result of lower interest rates making it more affordable to fund investment and consumption. In turn, this causes the AD curve to shift rightward, signaling a rise in aggregate demand. This change in AD causes the pricing equilibrium to move from P1 to P2 and the output equilibrium to shift from Y1 to Y2, resulting in rises in both output and prices. This is due to the fact that lower interest rates brought on by an expansionary monetary policy may encourage investment and consumption, which in turn can boost production and economic development. Although the lowering interest rates and expanded money supply may enhance demand, this also raises prices for goods and services over time, putting pressure on inflation. Finally, firms often tend to increase their hiring as they grow and make more investments, which may result in a decline in the unemployment rate.

(iii)

Table 1 and Figure 2 show that in 2007, the real GDP was 7.58 trillion, and it gradually increased to 8.23 trilliion in 2010, indicating a positive trend in economic output. After 2010, the real GDP continued to rise, reaching 9.14 trilliion in 2013. In contrast, the inflation rate climbed from 2.24% in 2007 to 3.25% in 2010, showing a moderate degree of inflation. After 2010, the inflation rate varied between 2.18% and 3.81%, remaining constant. Meanwhile, the unemployment rate was 1.18% in 2007, increased little to 1.49%, then sharply dropped to 0.62% in 2010. It then decreased after 2010 and reached 0.25% in 2013.

Overall, it can be said that Thailand's expansionary monetary policy from 2007 to 2010 was successful. It effectively sparked economic expansion, supported moderate inflation, and reduced the unemployment rate. The policy's results match those predicted by theory, demonstrating its success in accomplishing its stated objectives.

c.

The Bank of Thailand (2011) asserts that there are several barriers to Thailand's adoption of an expansionary monetary policy. Overall, a variety of risks and challenges are anticipated for companies in the future, including challenges with pricing changes, increasing production costs, a labor shortage, uncertainty over the state of the global economy, and political instability (Bank of Thailand 2011). Strong job growth caused the labor market to tighten, making it harder for businesses to find new employees, which increased pay pressure. Furthermore, it was noted that although private consumption originally grew positively as a result of strong economic development, it briefly slowed down as a result of political upheaval and floods (Bank of Thailand 2011). Meanwhile, there are various negative concerns that might affect private investment, such as rising production costs, a growing challenge in passing along rising production costs to consumers, and political unrest (Bank of Thailand 2011).

Question 3

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Export (in bil. USD)	21,3	23,5	28,9	23,5	25,5	26,5	23,6	23,6	24,9	21,8	22,4	21,8	**287,3**
Import (in bil. USD)	23,8	23,4	27,4	25,4	27,4	28,0	27,3	27,8	25,8	22,4	23,7	22,8	**305,2**
Trade balance	(2,5)	0,1	1,5	(1,9)	(1,9)	(1,5)	(3,7)	(4,2)	(0,9)	(0,6)	(1,3)	(1,0)	**(17,9)**

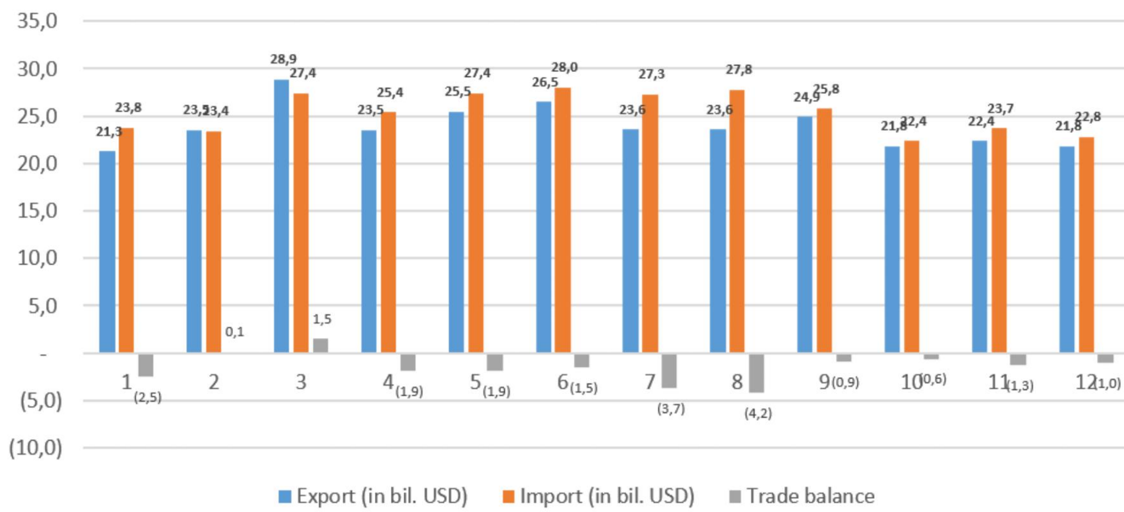

Table 2 and Figure 7. Thailand's monthly data on the export and import in 2022

(Source: TradingEconomics (2023), adapted from Thailand's Ministry of Commerce)

Thailand ran a trade deficit in almost every month of 2022. Total yearly figures also indicate that the trade deficit was 17,9 billion USD. The trade deficit, according to Bangkok Post (2022), can be attributed to rising imports that outpaced exports, a weakening of the Thai baht, strong demand for imports as a result of the lifting of Covid-19 restrictions, and a reduction in the semiconductor shortage that led to an increase in automobile shipments. The scenario is anticipated to persist, with the main risk factors being ongoing geopolitical crises, fluctuating foreign currency, and weakening global demand (Bangkok Post 2023).

Question 4

One key point discussed by our guest lecturer that I am interested in the most is the importance of balancing growth and inflation through interest rate adjustments by the State Bank of Vietnam (SBV). By changing interest rates to strike a balance between growth and inflation, the SBV plays a crucial role in the nation's economy. The speaker emphasizes that although higher interest rates assist control inflation by limiting expenditure, lower rates encourage economic development by promoting borrowing and investment. The SBV must thus strike the correct balance to support sustainable growth by keeping an eye on economic indicators, modifying interest rates as necessary, and being adaptable to changing circumstances. This problem relates to the ideas of the money market and monetary policy that I have learnt in this semester since the SBV raises the money supply by reducing interest rates, making it more affordable for organizations and people to borrow, which boosts economic activity. Raising interest rates, on the other hand, decreases money supply by making borrowing more costly, aiding in the reduction of inflationary pressures by lowering economic expenditure and demand.

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