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Question 1.

1.1) The bank of Thailand cuts its policy rate

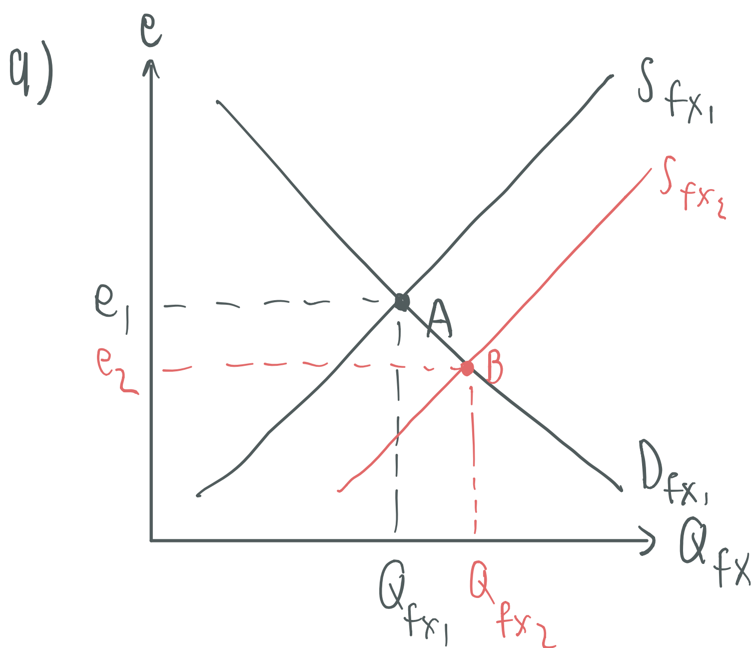
= THB depreciate → baht / USD increases

1.3) The US government has imposed a trade sanction [ก.คว่ำบาตร / ลงโทษทางก.ค้า] on Thai's agricultural product exported to the US market.

= Thai export less product to the US then demand for money in THB currency decreases → THB depreciate → baht / USD increases

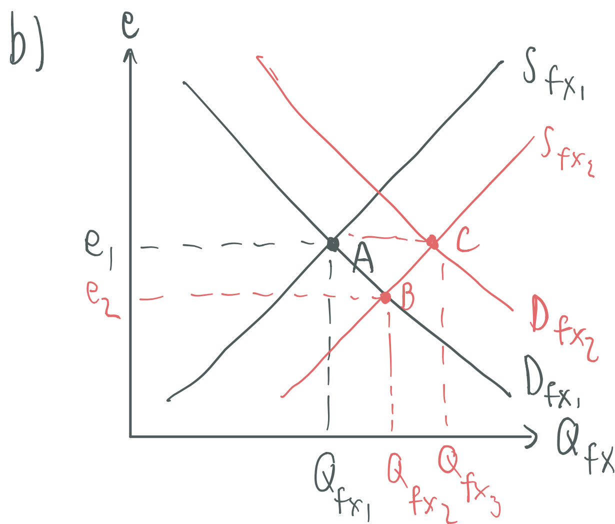
Question 2

a)



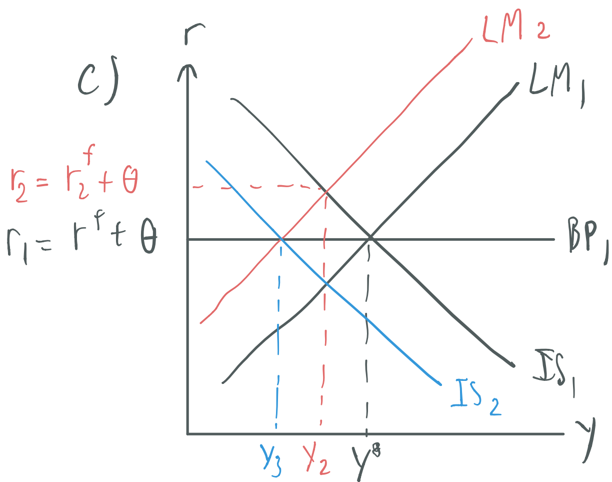
Under flexible exchange rate, the upgrade of credit rating of thai economy affects the value of thai baht to appreciate while US dollars depreciated due to more supply for foreign currency.

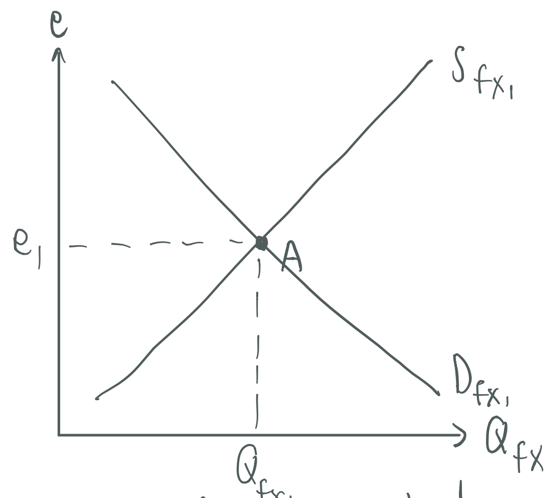
b)



The authority need to buy the foreign money to bring the exchange rate up for resisting the movement under the forex market intervention.

c)



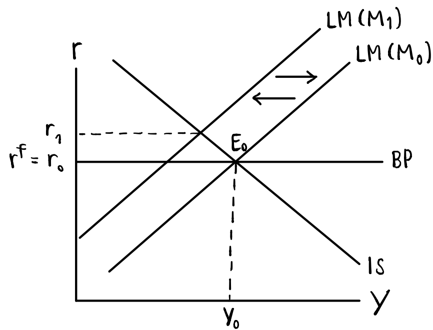


To limit the sided effect of the forex market intervention, the authority should reduce consumption and investment then IS will shift to the left reducing the interest rate but from these effect the actual outcome will be decreased.

Question 3.

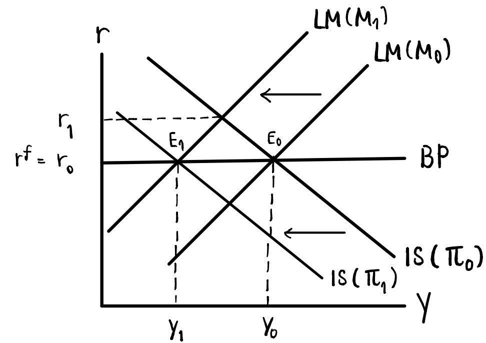
3.1) A reduction of money supply.

case: Monetary policy with a Fixed Exchange Rate



A decrease in the money supply shifts the LM schedule from $LM(M_0)$ to $LM(M_1)$. The domestic interest rate raises above foreign interest rate, triggering a massive capital inflow. As interest rate increase, output then decreases and causes higher unemployment rate. Central bank intervention to maintain the fixed exchange rate causes the money supply back to the initial level, M_0. The domestic interest rate is restored to equality with the foreign interest rate, and income is back at its initial level.

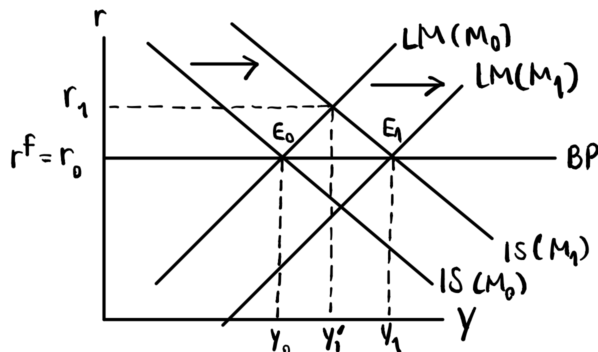
Case: Monetary policy with a Flexible Exchange Rate



A decrease in the money supply causes the LM schedule to shift from $LM(M_0)$ to $LM(M_1)$. The domestic interest rate raises above the foreign interest rate, triggering a massive inflow of capital. The capital inflow causes the exchange rate to fall, shifting the IS schedule from $IS(\pi_0)$ to $IS(\pi_1)$. The domestic interest rate is brought back into equility with the Foreign interest rate, and income falls to Y_1 causes an unemployment rate increases.

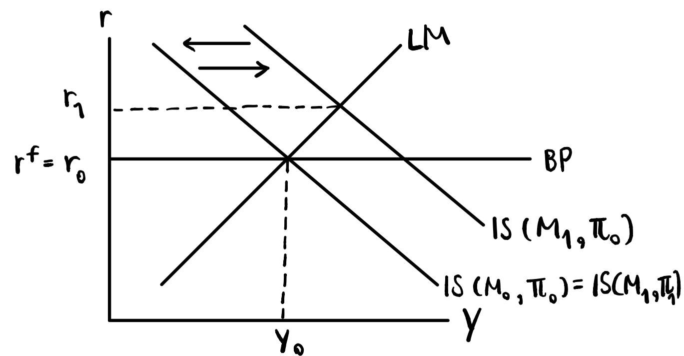
3.2) Thai government has imposed a tariff on imported products. → $\uparrow Y = C + I + G + (X - \downarrow M)$ ← เพราะ tax ↑

Case: Fiscal policy with a Fixed Exchange Rate



An increase in tax on imported goods causes income to increase and unemployment rate decrease. This makes IS curve shift from $IS(M_0)$ to $IS(M_1)$. The domestic interest rate is pushed above the foreign interest rate, resulting in a massive capital inflow. Central bank intervention to maintain the fixed exchange rate causes the money supply to rise. The LM curve shifts from $LM(M_0)$ to $LM(M_1)$. The domestic interest rate is brought back into equality with the foreign rate, and increase in the money supply reinforces the expansionary effect of the increase in government spending

Case: Fiscal policy with a Flexible Exchange Rate.



An increase in tax on imported goods causes Thailand import less product which makes income to increase and unemployment rate then decrease. This causes IS curve to shift from $IS(M_0, \pi_0)$ to $IS(M_1, \pi_0)$. The domestic interest rate rises above the foreign interest rate, with a resulting massive capital inflow. The capital inflow causes the exchange rate to fall. The fall in the exchange rate shifts the IS curve back to $IS(M_0, \pi_0) = IS(M_1, \pi_1)$. The domestic interest rate is reequated with the foreign interest rate, and income returns to the initial level.