




Lecture 1



Understanding
Basic notions

Financial Markets

NEWS FEED

NET FOREIGN HOLDING OF
THAI BONDS SLOWS

mergence
just cycles.

**Banks grow cautious
on consumer loans**

RIISING DEBT, LESS ROSY ECONOMIC OUTLOOK SEEN LEADING TO TIGHTENING

THE LINE

Controversial connected transactions and acquisitions/disposals

	2011				July-May 2013	
	No. of companies	Transaction value (m. baht)	No. of companies	Transaction value (m. baht)	Companies	Worth (m. baht)
■ Instructed to revise information	11	17,614	6	8,979	4*	n.a.
■ Warnings issued for investors	2	1,746	1	286	2*	n.a.
■ Instructed to revise information and companies cancelled transactions	-	-	4	2,697	-	-

Source: Securities and Exchange Commission

*DEMCO, GLAND were instructed to revise information and warned by the SEC

Thai bond market still in good shape for second half of 2013

Money and Monetary Policy

ECONOMY

Bank of Thailand foresees stronger Q3

BOE gives 'forward guidance' on rates

THE FORECAST for Thailand's economic growth has been lowered to 4.2 per cent from 5.1 per cent in line with the delay in global recovery and moderating domestic demand, according to the Bank of Thailand's Monetary Policy Report. >> **1B**

Policy rate stays static

The Monetary Policy Committee keeps its policy rate unchanged at 2.5%.

Business, B1

MPC keeps policy rate at 2.5%

Cut in Thai growth-forecast

BOT REPORT SAYS ECONOMY WILL SUFFER IMPACT FROM GLOBAL SITUATION

International Finance

CURRENCY DEVALUATION **Volatile rupee harms Indian economy**

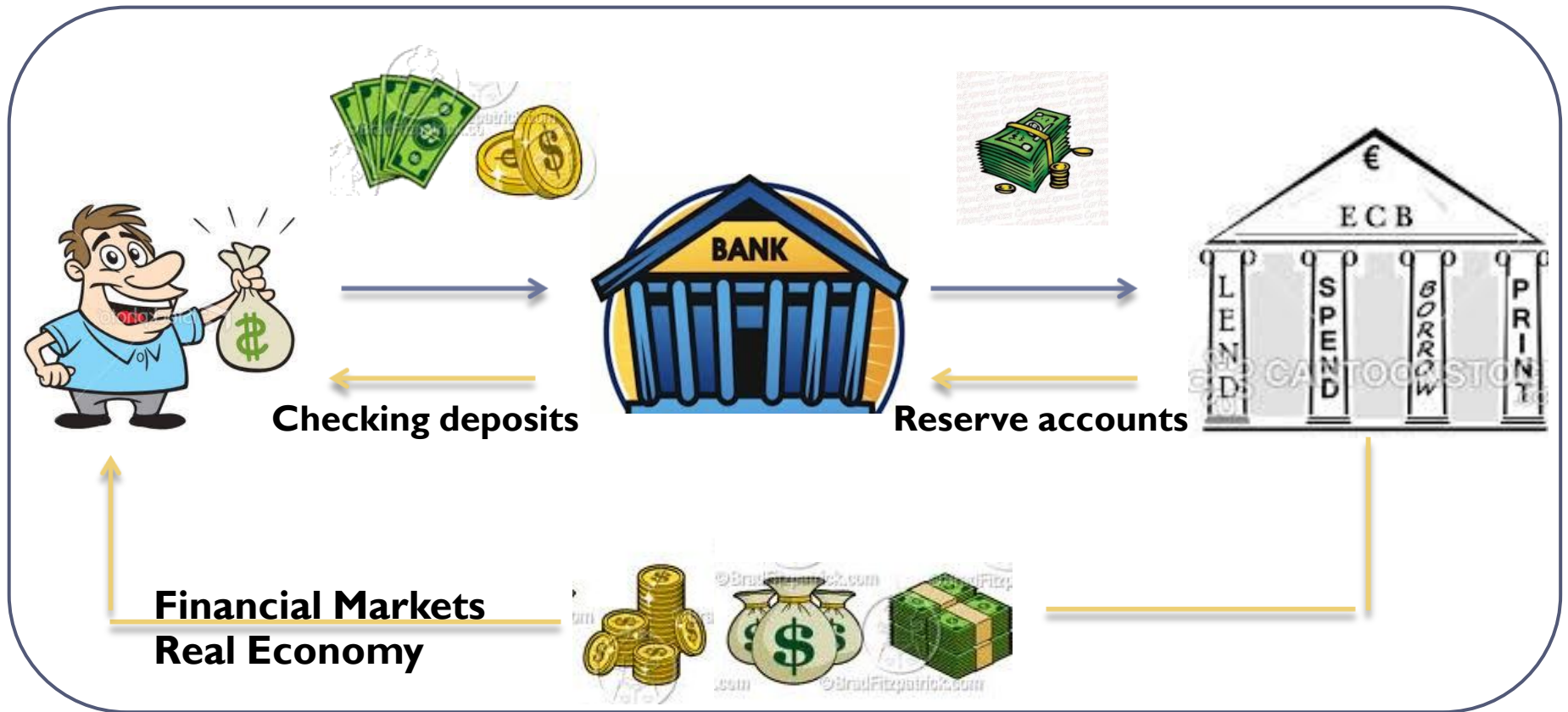
Yuan real exchange rate undervalued by 5-10 per cent, says IMF report

BLOOMBERG
WASHINGTON

ed 7.5 per cent from a year ago in the second quarter, down from a 7.7 per cent gain in the previous period. The IMF said on July 17 that risks are

What is Money?

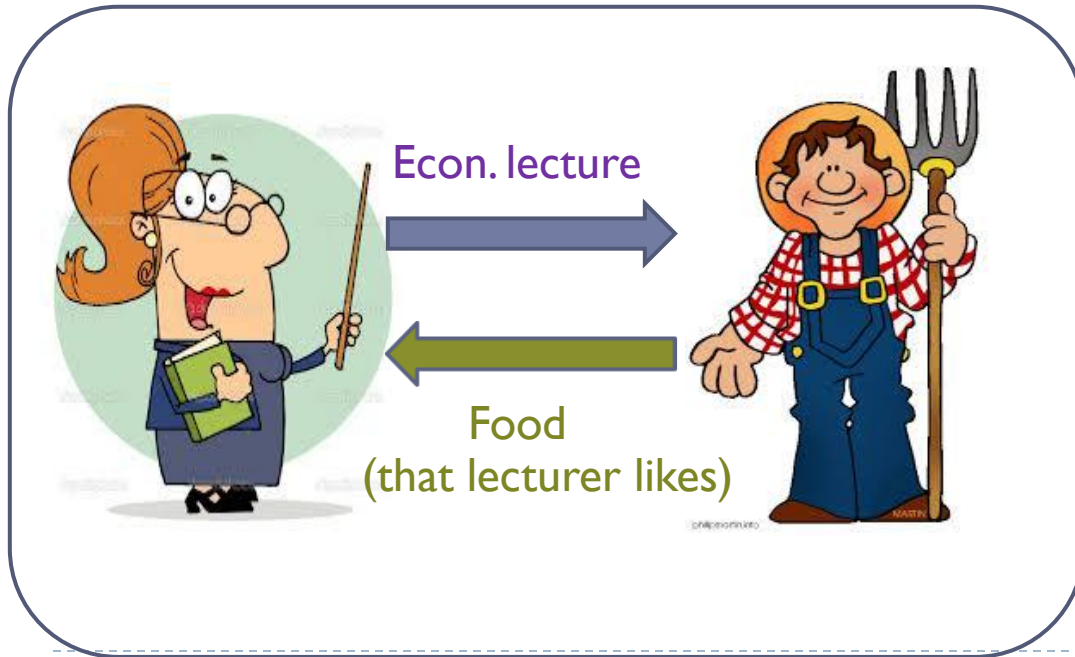
- ▶ **Money** has broader meaning than just **Currency**



- ▶ **Money means anything that is generally accepted in payment for goods and services and for repaying for loan**

Function of Money: 1. Medium of Exchange

- ▶ Money helps promote efficiency by:
 - Minimizing transaction cost (time spent in exchange for good and services)
 - Encourage specialization and division of labor



With money:
There is no need to wait for
double coincidence of want

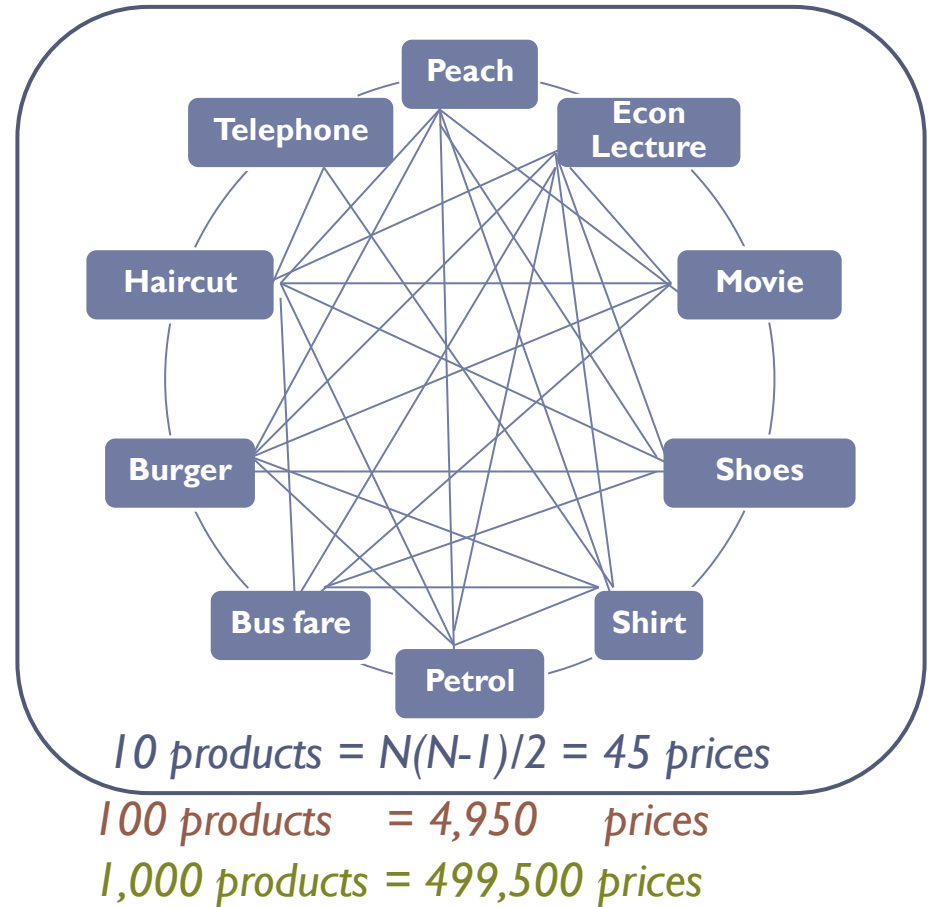
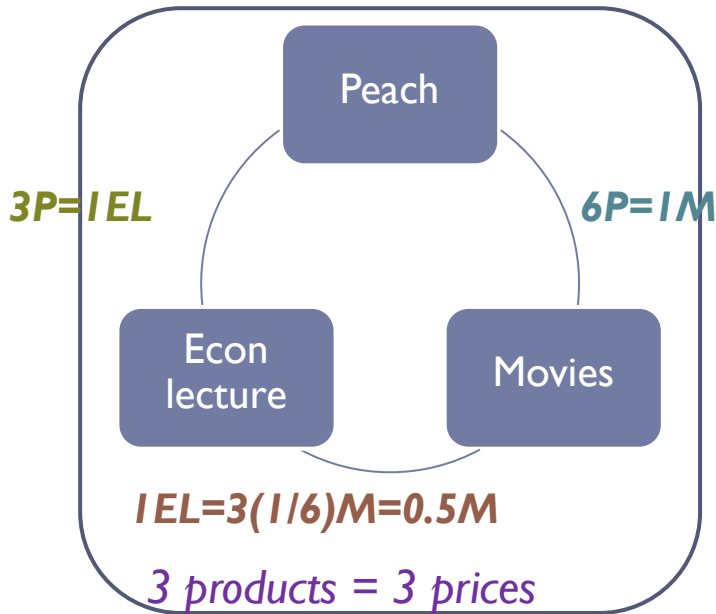
Function of Money: 1. Medium of Exchange

- ▶ Money should have following properties:
 - easily standardize (simple to know value)
 - Divisible (easy to make change and to carry)
 - Not deteriorate quickly



Function of Money: 2. Unit of Account

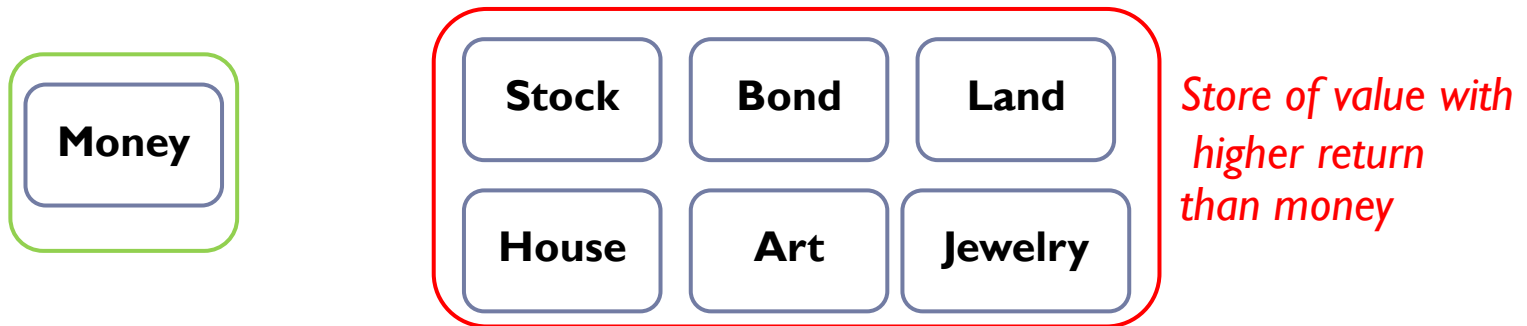
- ▶ Money is used to measure value in the economy



Money helps reduce transaction costs by reducing prices that need to be considered.
This benefit increases as economy becomes more complex

Function of Money: 3. Store of Value

- ▶ Store of value means saving purchasing power from the time income is received until the time it is spent.



- ▶ Why do people hold money?

Liquidity: relative ease and speed that assets can be converted into medium of exchange (money is the most liquid asset, hence no transaction costs).

- ▶ How good store of value money is depends on price level.

(Doubling all prices  value of money drops by half)



Measure of monetary aggregate in case of the US

- ▶ M1 is the narrowest measure of money (most liquid)
- ▶ M1 = Currency
 - + Traveler's checks
 - + Demand deposits
 - + Other checkable deposits
- ▶ M2 is M1 plus less liquid asset
- ▶ M2 = M1
 - + Small denomination time deposits
 - + Saving deposits & money market deposit accounts
 - + Money market mutual fund shares

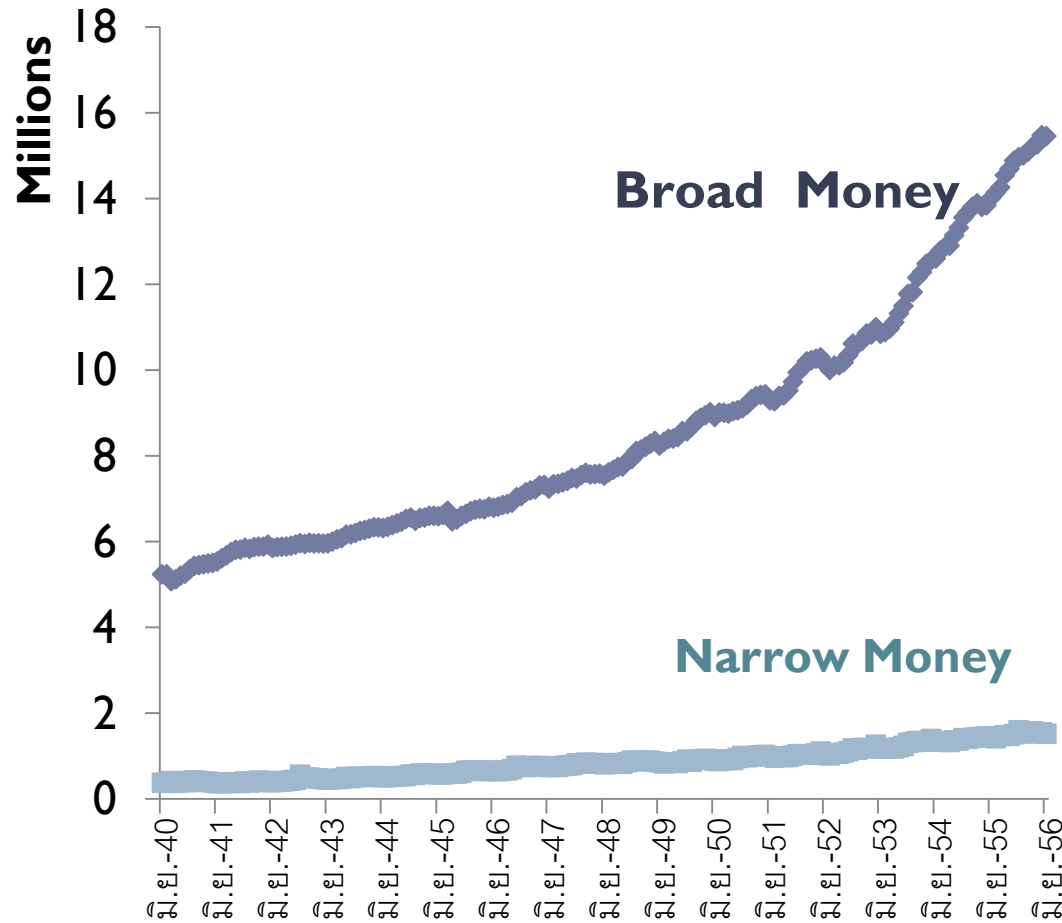


Measure of monetary aggregate in case of Thailand

- ▶ Narrow Money comprises the most liquid money liabilities that are held by money holders:
- ▶ **NM= Currency**
 - + Demand deposits (current deposit)
- ▶ Broad Money equals the sum of narrow money and quasi-money.
- ▶ **BM=NM**
 - + Foreign Currency Deposits
 - + Other Deposits (saving, time deposits)
 - + Securities Other Than Shares (bill of exchange)



Money Supply in case of Thailand



- Money supply is a measure of purchasing power of an economy
- Money supply is highly correlated to GDP growth and inflation over intermediate and long term.