□ MIDTERM EXAM
□ 8 March 2019
□ 9:00-10:30 am

Answer all three questions; each one carries 10 points.

1. Has the Thai economy in 2019 become less resilient than the period 1991-2005? Compare and contrast the challenges at present with those in 2014 and 2006.

2. What did make Thailand's hyperinflation during WWII different from Venezuela's super hyperinflation in 2019?

3. What can we infer about Thailand's economy from the Table blow?

	Public Expenditure on education (%GNP) 1989	Secondary school enrolment (1988-89)
Indonesia	0.9	47
China	2.4	44
India	3.2	43
Thailand	3.2	28
Korea	3.6	87
Malaysia	5.6	87

① In 2019, Thailand has become less resilient than the period 1991-2005. By looking at the adjustment mechanism during 1991-2005, we can better see how Thai economy in the period 1991-2005 become more resilient than nowadays.

During the period of 1991-2005, the resilience of Thailand come from many factors such as

① The responsiveness in agricultural sector

② The Labor market flexibility

③ Consumption and investment not intact

④ Financial sector become more stringent with financial regulation

With these mechanism, Thailand be able to achieve a V-shape recovery during this period.

① The responsiveness in the agricultural sectors come from the agricultural output that responded positively to the high prices for world commodities. Moreover, the sector generates demand for manufactured products to the manufacturing sector. This make the impact of shocks was mitigated and it act as a shock absorber, "no body dies of starvation" (Bhanupong, class 5)

② Thailand have flexibility of wage rate which can help mitigate the shock.

✓ ③ By looking at the contribution to GDP growth of demand components (percent), both consumption and investment are not intact (Table 1)

	1997-1998	1999-2005	2006-2007
Private Consumption	-57	63.8	25.3
Government	-8	10.0	16.8
Investment	-313	48.8	-8.1
Net export	278	-22.6	65.9

Source: The Hard Road Ahead for Thailand's Economic Recovery P.121

④ After 1997-98 Asian financial crisis, Thai financial institution have undergone consolidation and strengthened rules and regulations. Moreover, the Bank of Thailand has also strengthened its monitoring system. This make the impact of global recession is minimal on financial sectors.

However, in 2019, the key contrast that make Thailand less resilient that the period of 1991-2005 is the loss in consumer and investment confident from the constant shock and coups galore in 2014. ✓

With this key growth engine loss, the Thai economy drifted from its long run growth path and in dangered of trapping in the middle-income trap.

(2) The key differen~~t~~ce that makes Thailand's hyperinflation during WW II different from Venezuela is the ability to cope the problem

With the increased money supply from printing money, the expected rate of inflation increases and velocity of money started to accerelate. "The increased opportunity cost of holding real money balances reduces the demand for them" (Phillip Cagan, 1956)

However, Thailand be able to solve the issue both the money supply and expected inflation unlike Venezuela.

In 1946, the excessive growth rate of money supply in Thailand was contained by the issuance of long-term bonds to absorb the money supply. For the inflation expectations, Thailand adopt a multiple exchange rate system. With this system, Thailand price stability is held and lower the expectation inflation of people. From this precondition, Thailand be able to take off, entered the third stagies of growth and achieved three decades of rapid and stable growth.

In contrast, Venezuela keep printing money and established the new currency which not solve the root of the problems, the government deficit and inflation expectation. According to Dani Rodrik, the good institutions can overcome the geographical constraints. With Venezuela under Macouro president regime, the country experienced corrupted institution and the country suffered in both the output and life condition despite the abundant of natural resources and good geographic of the country. This confirmed and concluded how Rodrik can well explain the Venezuela issue.

③ According to the Table above, Thailand spend alot on the human capital and didn't neglect it. However, there is no correlation between the expenditure on education and school enrollment. This might because there are alot of problem from incentive, quality and value of Thai's education system.

"Investments in education can affect productivity in agriculture as well as the economy as a whole" (Theodore Schultz, 1979). The human capital in Thailand is very low comparing to Japan which was once the same during initial conditions in 19th Century. With alot of human capital spent in Japan, Japan can achieved technological transfer and becoming the world leading economy unlike Thailand.

Although Thailand has spent vast amount of money on education, it cannot achieve a higher human capital. The key reason is the system, student don't have incentive to pass the exam. This is because when the student failed the class, they can be able to retake the exam move to the next level. The quality of teaching is also low. With low income level of teachers, they also don't have incentive to teach and encourage student to learn.

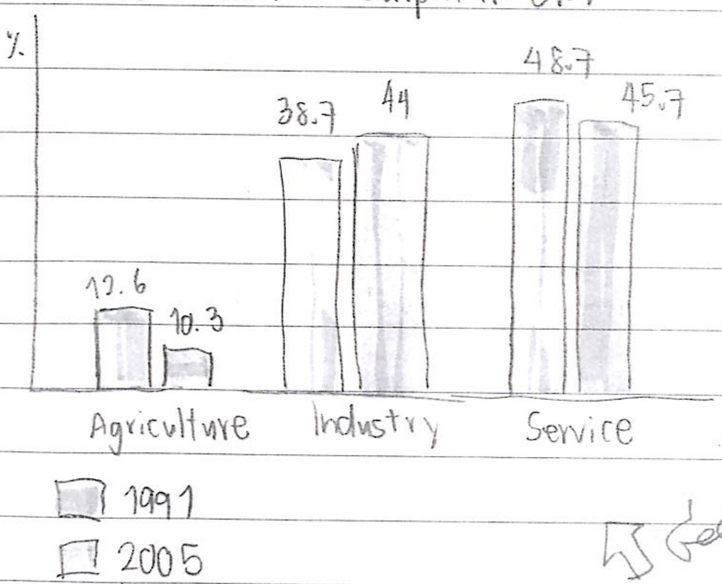
Really?
why some of them cheat?

Human capital is a long-term process, it need to be emphasized as soon as possible. One of the reason that the structural transformation for agriculture is struck at 10% is the low level of human capital (Figure 1). With higher level of human capital, it will flee the labour that struck in the sector and result in more productivity and technological transfer on the agricultural sector.

Lastly, Theodore Schultz also emphasizes not to neglect the agriculture since there is alot of potential that can be improved from agricultural sector

Figure 1

Shares of sectoral output in GDP



Sources: Bhanupong Lechure 4

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