

Assignment 1
(To be submitted by 7 September 2012)

Instruction:

- This is a group of two-students assignment. Feel free to choose your partner.
- Please use data available in International Financial Statistics CD ROM to complete the assignment
- Please type the assignment and send both hard and electronic-copies

1. Balance of Payment

1.1 Draw two diagrams of pattern of balance of payment in Thailand between 2000 and 2010. One of them uses monthly data and the other uses quarterly ones. Note: the horizontal axis is time whereas the vertical axis is balance of payment in million\$.
(in Excel)

1.2 Do you agree with the following statement, using the diagrams developed in Question 1.1

“ Analysis of Monthly Balance of Payment must be undertaken with care as it is possible for export-oriented economy like Thailand that there would be cyclical effect, i.e. in a month the country run deficit due to huge import of raw materials but the balance turns to be surplus in the another month due to export shipment. Hence, it would be more meaningful to use quarterly data in analyzing balance of payments”

- Agree due to presence of cycle
- See the example of 2005. There were certain periods that Thailand experienced BOP deficit by monthly data but the cycle was smoothed by quarterly data.

1.3 Using annual data of Thai balance of payment to draw two graphs **within a single diagram**, one line represents balance of payment in US dollars and the other in terms of local currency (Baht). The period coverage would be 1990-2010.

- Difference is observed only the high currency fluctuation (1997/98) only. Other periods, both graphs are the same more or less. (Excel)

1.4 Using annual data of Australian balance of payment to draw two graphs **within a single diagram**, one line represents balance of payment in US dollars and the other in terms of local currency (Australian dollar). The period coverage would be 1990-2010.

- Difference is at the minimum even though Australia is widely regarded as the relatively free floating exchange rate country.

1.5 Based on the graphs drawn in Question Nos. 1.3 and 1.4, does the choice of currency matter for analysis of balance of payment?

- No really matter. Regardless the exchange rate regime, there is effort to avoid currency fluctuation.
- Australia exercises high floating exchange rate regime, one can find a little bit fluctuation. And choice of currency might matter in this case.

2. Balance of Payment in Thailand

2.1 Develop a diagram illustrating balance of payments, current account and capital accounts in Thailand between 1990 and 2010 (Hint: Annual data, the unit is million\$)

Note: Capital and financial account can be called briefly as capital account.

Most of you draw just capital account (mostly have zero value) so it will be flat and thus we can't compare the pattern in Q2.2

2.2 Draw inference of Diagram in Question 2.1. The samples of inference points that can be drawn are as follows;

- Whether Thailand has run balance of payment surplus/deficit and what pattern

Surplus most of time

- What was the source responsible for such imbalances

Before 1997, imbalances were a result of successive current account deficit but continuous capital account surplus with the greater amount.

After 1997, sources of imbalances were different from those in the pre-crisis period. The country experienced current account surplus. Capital account balances were mixed between surplus and deficit during this period.

- Can we draw implication on risk that Thailand would experience capital flight?

Before 1997, it was really risky

After 1997, it is unlikely.

3. Capital Account

3.1 Draw a diagram of capital and financial account balance for Thailand between 1990 and 2010 (Annual data). Please use million \$ as the value measure.

Capital account is very small proportion in the sum between capital and financial accounts.

3.2 Draw two diagrams of financial account balance, foreign direct investment flows, and other forms of capital flows. One uses quarterly data and the other uses annual data between 1990 and 2010. Please use million \$ as the value measure.

3.3 Do two diagrams developed in Question 3.2 provide different pictures? If you have to undertake capital account analysis, please identify your preference and explain why.

Quarter one provides dynamics of capital flows more precise. This is important when the movement of capital across countries and economic stability/volatility are concerned.

3.4 Draw a diagram illustrating FDI inflows (Investment in Rep.), FDI outflows (Investment Abroad) and FDI netflows (FDI inflows-FDI outflows), using the quarterly data and unit of value is million\$

IFS provide value that already adjusted sign. So just sum them up.

3.5 Draw a diagram illustrating OFCF inflows (Liability), OFCF outflows (Asset) and OFCF net flows (OCF inflows- OFCF outflows), using the quarterly data and unit of value is million\$

(in Excel)

3.6 Is there any value added from separating FDI inflows, FDI outflows and FDI netflows? Similarly, is there any value added from separating OFCF inflows, OFCF outflows and OFCF netflows?

You should use the graph you draw from previous questions to answer this question

Value added = Benefits from separating. Yes for FDI but not for OFCF.

4. Concept of Basic Balance

As argued in Sodesten and Reed (1994), if you want to assess probability a given country would face capital flight (sudden capital reversal), you need to construct the balance of stable elements in Balance of Payment, referred to as the basic balance. The stable elements in Balance of Payment include current account balance and FDI net flows.

4.1 Draw a diagram illustrating balance of payment, current account and basic balance of Thailand, using annual data between 1988 and 2010.

Basic Balance = Current Account + FDI net flow

4.2 Using the basic balance in Question 4.1 to assess the chance Thailand would face capital flight due to the recent European crisis.

Low risk as BOP surplus in Thailand largely came from the stable elements (Basic Balance).