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1. Explain how Thailand's early economic development evolved around the concept of the big push theory, the flying geese hypothesis, and the theory of economic backwardness.

① The first concept is the big push theory by Rosenstein - Rodan. this theory tells that a specific amount of investment is considered necessary for economic development because 'Bit by Bit' allocation cannot move economy on the path of economic development. therefore, the big investment in infrastructure initially from government can create economic of scale in production. therefore, it will cause "crowding in effect" in that country. this effect come from the initial big invest by government encourage private to invest more in infrastructure. For Thailand's early economic development evolved around in term of specialization. the government big push only in primary product and export only what we are good at. However, we aren't develope to industrialization as Japan did. the concentration in only one sector of the country may drive to short-term success but it's not drive to long term growth or development.

② the second concept is the flying geese hypothesis. It is the concept about the shifting of comparative advantage across economies, aided by factor such as foreign direct investment, structural change and others that make economic development. the underdeveloped nations aligned successively behind the advanced Industrial nations by transfer the technology. Thailand's early economic development evolved this concept as the first geese "Japan". Japan begin to produce primary goods until their input cost is higher. Thus, they change to base in other countries as their lower wages. Japan start to focus the industrialize more and they change to produce other things and ~~transfer~~ technology to Hong Kong, Singapore, South Korea and Taiwan. These countries countinue to produce until they change to higher stages and they transfer technology to other countries like Malaysia and Thailand. Moreover, Japan shift to other commodity ahead Hong Kong, SG, SK and Taiwan. Each country will continue shift to new stages of growth and transfer to other country instead as the flying geese diagram. To sum up, Thailand have FDI-driven economy as there are many country that come in to invest more in thailand. As it is a motive power for the economy.

③ The last theory is the theory of backwardness. It said that to get out of backwardness we need to reform and innovation of institution. Alexander Gerschenkron said that we need to do 4 things to get out from the economic backwardness which are institutional innovation, the more intervention is required in the market economy to channel capital and entrepreneurial leadership to nascent industries, apply capital-intensive rather than labor-intensive methods of production to crete larger scale of production and the more dependent was industry upon growing productivity. Therefore, Thailand have institutional innovation but the rule of law may not be that strong enough to cope with corruption. Furthermore, we have government intervention but may be not in a right sector to drive a very high growth. We also face many situation that make our growth slowdown such as bird flu, tsunami and coup.

2. Compare and contrast Thailand's financial crisis in 1997/1998 with current economic situations in Argentina, Turkey, and Venezuela.

The financial crisis in Thailand during the 1997/1998 has its similarities and differences to the crisis faced by these emerging economies today. The most striking similarity is that all of these crisis involve excessive borrowings in foreign currencies, especially in US dollar, that are unable to be repaid in the face of shocks that created massive depreciation in domestic currency. On the other hand, the most striking difference is that during the 1997/98 crisis, such borrowing was created by private sector, while the overborrowing in these countries today are credted by the government.

During 1997/98 crisis, financial liberalisation without proper regulation, fixed exchange rate that create zero exchange rate risk, and the creation of various policies that aim to establish Thailand as regional financial hub, led to overborrowing in foreign currencies, creating currencies and maturity mismatch. As exports declined and Thai Baht came under speculative attack, devaluation was imminent and the value of debt increase in such way that debt cannot be repaid by the private sector, who are the main borrower. In addition, reserves dropped substantially in BoT's attempt to maintain pegged exchange rate.

Argentine crisis is also characterised by overborrowing, but by the government in the attempt to finance budget deficits that resulted in massive current account deficit according to the twin deficits concept [$M-X=(I-S)+(G-T)$]. Similar to the AFC, Argentineah Peso was overvalued due to the previous government's policies to maintain currency controls. With external shock in which Fed hiked interest rate, the Peso depreciate substantially, causing reserves to deplete in the government's attempt to stabilise the currency. As currency depreciates, debt value increase and the ability to pay debt come into question. Business and investor confidence drop, due to animal spirits, resulting in further depreciation and outflows. The Argentina crisis is characterised by hyperinflation in the government's attempt to print money to pay back debt, which did not happen during the AFC.

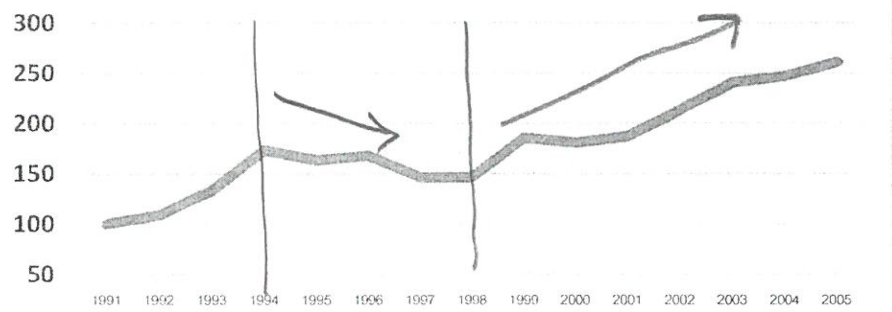
The Turkish crisis occurs because of the relaxation in monetary policy that encourage overborrowing, in this case by both private and public sector, and lead to double-digit inflation. External shocks of Fed's rate hike and trade war again causes investors to lose confidence, thereby leading to massive outflows and currency depreciation. ~~Ara~~ Turkey also faced current account deficit before the crisis, similar to Thailand. It also similary finance the deficit through investment-saving gap. As the currency depreciates, the inability to pay back becomes imminent. The case of Turkey is perhaps the most similar case to Thailand, minus the fixed exchange rate.

In the case of Venezuela, massive dependency on oil exports led to dutch disease and large current account deficit financed by public fiscal deficit. The government borrowed substantially, as the currency depreciate, the government, similarly, cannot repay the debt. The differences from AFC is that since the borrowings are made by public, the government print money to repay debt, resulting in hyperinflation. The problem nonetheless had started since the drop in oil price in 2014 ~~[illegible]~~ leaving the oil-dependent country to fall short of foreign exchange to finance imports, leading to even more borrowing and ~~[illegible]~~ shortages.

3. Discuss the relationship between the Dutch disease and the Prebisch-Singer hypothesis. Do you think that between 1991 and 2005 Thailand suffered from the Dutch disease and adverse consequences as described by the Prebisch-Singer hypothesis?

Figure 1: An indicator of the Dutch Disease: (P^X/P_H)

Export-House price ratio (%)



DUTCH DISEASE	Real exchange appreciation	$\frac{P^X}{P_H}$	↓
PREBISCH	falling terms of trade	$\frac{P^X}{P_M}$	↓

Relationship: P_X ↓,

Dutch P_H ↑

Prebisch P_M ↑

$\boxed{\text{Fig 1}}$ ⇨ No, not Prebisch-Singer X

⇨ No, not Dutch Disease 1999-2006

⇨ YES, Dutch Disease 1996-1997

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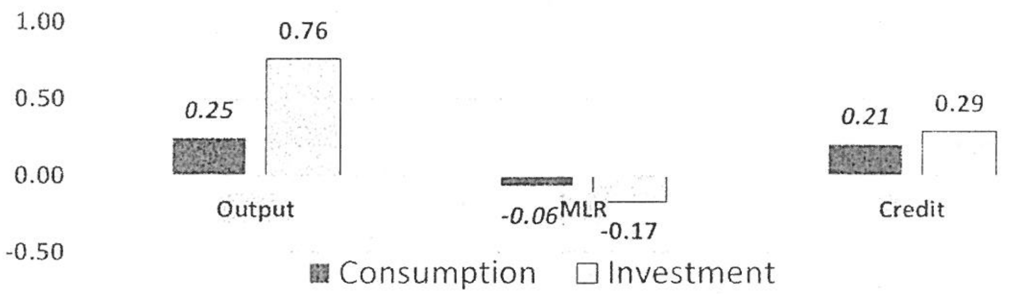
4. What are policy implications can we derive from Figure 2? How relevant is the Austrian Business Cycle theory to the Thai economy?

Figure 2: Elasticities of Consumption and Investment

(Jan 2000-June 2017)



The above diagram represents the elasticities of consumption and investment with respect to changes in output, cost of borrowing and the quantity of credit. From the diagram, output has the highest impact on consumption and investment, followed by quantity of credit and MLR.

In terms of output, if output increases by 1%, consumption would expand by 0.25% while investment expands by 0.76%. Policy implication is that the effectiveness of policies on investment and consumption depends the most on the policy's ability to stimulate output and maintain output stability. Since political instability increases risk and uncertainties, one way to ensure the effectiveness of policies is therefore to ensure inclusive institution and political stability, thereby allowing for lower output volatility and health business sentiment and consumer confidence. In addition, the way the policies are employed is as important as institution in their abilities to create confidence and output stability. Both monetary policy and fiscal policy should be employed in such way that long-term growth path can be maintain. For instance, fiscal policy should be directed toward capital accumulation (human and physical) rather than non productive sector such as defense. Monetary policy should remain flexible enough to maintain external balance without tight control on exchange rate. unless there is a healthy environment for business sentiment and consumer confidence, it is unlikely that policies will be effective.

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In terms of credit and interest rate, an increase in quantity of credit by 1% will increase investment by 0.29% and consumption by 0.21% while an increase in cost of credit (MLR) by 1% will reduce investment by 0.17% and consumption by 0.07%. The smaller elasticity of consumption and investment with respect to cost of credit compared to quantity of credit suggests that quantity of credit is more important than the cost of borrowing. Therefore, in the conduct of monetary policy it is important that the policy focuses on the availability of credit rather than the cost of funding. This implication is supported by the fact that there is only small correlation between monetary policy tool (14 day Repurchase rate) and MLR that actually affects consumption and investment. In addition, since BoT tends to be in favour of managed exchange rate, there is a policy dilemma that hinder the effectiveness of monetary policy through interest rate and exchange rate channel, credit channel is therefore the only policy transmission channel left. Nonetheless, the availability of credit will still be less effective if there is low demand for credit. Business confidence and consumer confidence again play an important role in credit demand. Therefore, it is most important that business sentiment and consumer confidence to be maintained at a healty level in order to ensure policy effectiveness while taming animal spirit.