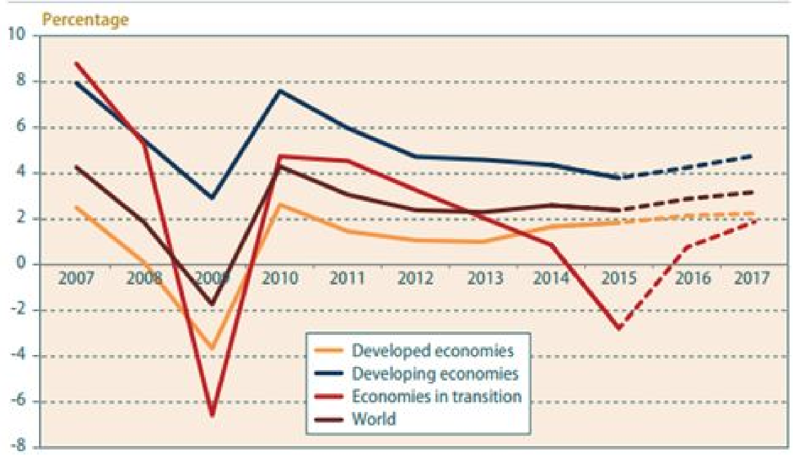
Assignment 1

1) Research current economic conditions (interest rates, inflation) using *The Wall Street Journal*, other library resources, or the World Wide Web. Based on current economic conditions, what actions would you recommend to people who are saving and borrowing money?

World Economy

The overall world economy has stagnated. As the evidence from figure l.1, the growth of world GDP is only 2.4% which is less than the forecast by UN at 2.8%. This indicates that the current situation is worse than expected. This analysis will focus on China and G3 countries which include United States, Japan, and European Union.

Figure I.1
Growth of world gross product and gross domestic product by country grouping, 2007–2017



Source: UN/DESA.
Note: Data for 2015 are estimated; data for 2016 and 2017 are forecast.

United States

According to World Bank Data, the GDP growth of US increases from 2.4% in 2014 to 2.7% in 2015. This could be the result from the lower oil's price which decreased to almost 30$ per barrel. However, it is still lower than what economists expected in the beginning of the year. The main reason came from the shrinkage of China GDP. For the inflation, it increased overtime since the beginning of 2015. The current inflation is 1.37%. Certain levels of inflation indicate the wellness of the economy, even though it decreases the purchase power of people. Furthermore, the fed fund rate has been raised from the first time since 2006 by 25 basis point. This shows that the recovery of US economy from the financial crisis.

China

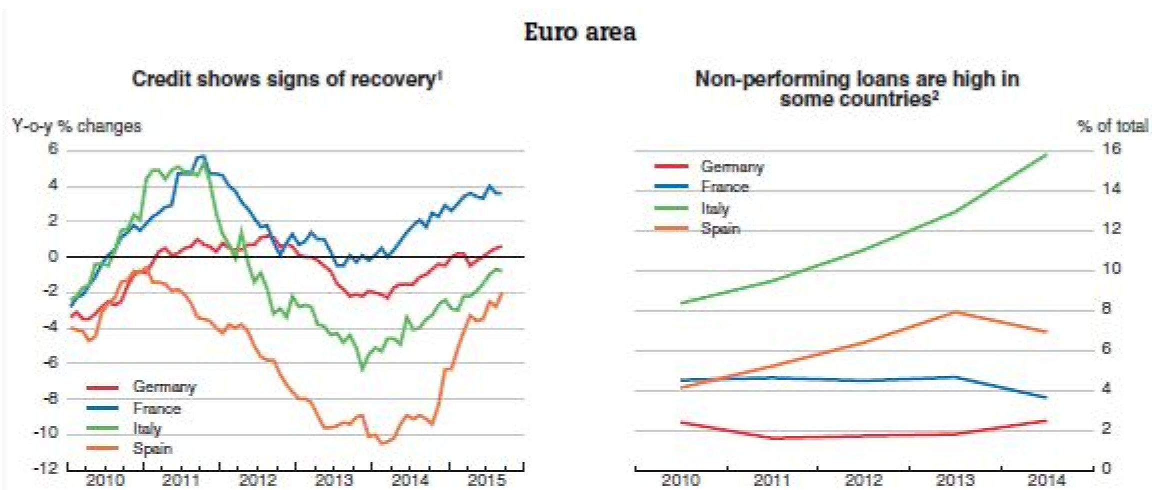
In 2015, the most outstanding in economic news was the announced of GDP growth of China. Its growth is 6.9% which is the slowest in last 25 year. One of the reasons might be the easy accessibility of the credit without proper screening. The commercial bank announced the non-performing loan which is the highest since June 2009. Moreover, the special mention loan increased by 3.79%. This can be implied that China faced the bad economic condition because people had no money to back loan.

Japan

The GDP growth of Japan increased from -0.1 in 2014 to 0.59% in 2015. Furthermore, according to inflation website, the inflation in Japan decreased from 2.4% in 2014 to 0.4% in 2015. In order to prevent the prolonged issue, deflation, the government announced the negative policy rate for commercial bank. The bank is encouraged to give out the loan to lower the cost of keeping money. It also impacts on the consumer since the interest rate on February 2016 is up to only 0.02%. People are likely to spend more. Based on these channels, GDP are likely to increase in the future.

European Union

For overall GDP growth of this region has an increase trend from negative GDP in 2013 to around 2% in 2015. This shows the recovery process of European Union. It is noticeable from the graph that most of the countries show the increasing in credit which can be implied the sentiment in investment. In addition, European Central Bank still pursuits the quantitative easing to maintain the liquidity in economy. This will depreciate Euro currency and boost the export. The economy is likely to improve overtime.



1. Loans to non-financial corporations adjusted for sales and securitisation.
2. Gross non-performing debt instruments as a percentage of total gross debt instruments.
Source: European Central Bank.

The overall world economy has stagnated from the impact of slower growth in China GDP from 7.3% in 2014 to only 6.9% in 2015. It has a spillover effect to other ASEAN economic from being a trade partner with China which, for Thailand, accounts for 11.7% of total export. Some countries also face the negative domestic shock which decrease the aggregate demand in the country. Meanwhile, the group of G3 countries recovers continuously since they have a support factor from private consumption, increase in employment rate, and monetary policy easing. For Japan economy, it faced the low inflation rate and combined with the effect of the slow growth of China. The BOJ decided to adjust the policy rate to -0.1 in order to stimulate the economy out of depression. Simultaneously, European Central Bank also plans to do monetary policy easing to support the recovery of European economy. For US economy, it is possible that FED will delay the increase in interest rate because the lower growth in economy and inflation.

To sum up, the uncertainty in China economy cast doubt to almost every countries in the world. It can influence the sentiment in business and financial market because of the huge drop in China stock market.

Domestic

Currently, Thai economy has been grown from last year by 0.8 percent. The GDP in 2015 was 2.8 percent, while the gdp in 2014 was 2 percent. The growth have counted an increase of consumption and investment by 2.1 and 4.7 percent, respectively. This was mainly supported by continually increasing in government spending, tourism, and private investment. For example, government spent almost 100 billion to improve farmer's debt structure and low income 's livelihood by promoting the market of agricultural products, and providing low interest rate loan. Another crucial reason of the higher gdp was a launch of policy that tried to induce household spending by reducing exercises tax and raising the tax next year causing a higher purchase of car. As a result, the Thai economy is likely to expand, leading to attract investors. However, the gdp was not a significant increase, as private investment and export were at the low level, and they still tend to remain low in this year. This is due to economic slowdown period of the trade partners, and domestic structural constraints weighing on the country's export competitiveness. Even though there was a depreciation in Thai baht and a drop in price level.

In financial condition, interest rate in thailand decreased from 2.0% in 2015 to 1.50% in 2016 as monetary policy aims to support economic recovery while inflation rate still remained negative but increased from -1.1% to -0.9% in 2016. Such lower interest rate tends to discourage the savings as its rate of return is low. In contrast, it seems to give incentive for businesses to borrow more as their cost of borrowing tend to be lower. Nevertheless an increase in inflation rate was slightly increased and still remained negative then people tend to save more and reduce their consumption as their value of money is higher

Suggestion

Since the GDP of Thailand has increased from last year only the small amount, so the economy will be unlikely to grow much in this year. As it was depressed from the trade partners that tend to slow down expansion, especially main traders like China which, for Thailand, accounts for 11.7% of total export. Moreover, the inflation rate still remains negative, implying that an increase of investment and consumption within the economy were insufficient to recover the negative number, even though the lower interest rate should be able to induce firms or household to invest and spend. Therefore, we suggest that people should save more and borrow less, as there is no obvious opportunity to make a profit. The more people save, the safer they stay in this unstable economy. There is a risk for both lender and borrower as long as the economy does not have a signal of economic growth. Creditors are unlikely to receive the full amount of loan, because debtors may not reach the targeted revenue and profit as they used to get. In addition, a negative inflation also indicate that the real cost of borrowing increase ,hence borrowing for investment need to rely merely on opportunities.

2) Collect advertisements and promotional information from several financial institutions, or locate the Web sites of financial institutions. Create a list of factors that a person might consider when comparing costs and benefits of various savings plans.

There are many saving plans that people can choose. In this paper, we selected 3 different kinds of savings, which are insurance, deposits, and mutual fund.

Insurance

Insurance is a contract or policy in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured. (Investopedia, LLC., 2016) There are many types of insurance such as life insurance with saving plan, accident insurance, health insurance, etc.

We will compare life insurance between 4 insurance companies. Life insurance is a contractual agreement between a policyholder and a life insurance company. Policyholders agree to pay premium payments to the company, and the company agrees to pay back beneficiaries in a sum of money in case of death. (mylifeinsurancequotes, 2014) When it comes through the decision making of buying insurance, there are some considerations to compare and contrast which insurance is better and fit with our own preference. The criteria for each type of insurance is not the same. For example, life insurance for senior, people will consider from duration of plan, cash value, premium payment, coverage amount, coverage period, death benefit, and health check-up.

	Muang Thai ***วัยเก๋าคุ้มทั่วไทย***	***AIA*** ***ประกันชีวิต 50 อัพ***	***Thai Life*** ***ทรัพย์มิ่งขวัญ***	***Allianz Ayudhaya*** ***สูงวัยได้เกินร้อย***
Duration Plan	50-75 years	50-70 years	60-75 years	50-70 years
Premium Payment	Monthly, Annually	Monthly, Annually	Monthly, Quarterly, Annually	Monthly, Annually
Coverage Amount	500K	50K-300K	50K-300K	50K-200K
Coverage Period	Up to 90	Up to 90	Up to 90	Up to 90
Health Check-up	-	-	-	-

Death Benefit	Up to 3M	102% of Premium + 500% of Coverage Amount	Up to 100% of Premium	Up to 600K

To compare between cost and benefit of each insurance, this is based on a person's preference and expectation. The cost is hard to consider since it can depend on each person's purchasing power. For the benefit, AIA is seem to be a good choice to invest since your coverage amount is high because the death benefit is 102% of premium paid + 500% of your coverage amount which can be greater than 3 million baht of Muang Thai. But if your coverage amount is small, Maung Thai might be a good choice since the computed death benefit of AIA might become lower than Muang Thai which is cover up to 3 million baht.

In conclusion, there are many criteria for insurance decision making such as duration of plan, cash value, premium payment, coverage amount and coverage period depending on which type of insurance a customer choose. The company that offers a longer duration period will gain more benefit or customers. For instance, Muang Thai offers insurance for the person age from 50 until 75 years old while AIA insurance offers only for the age from 50 to 70 years only. For life insurance, it might have more criteria such as death benefit, and health check-up to consider. Additionally, it would be better for the customer to read all the conditions, criteria as well as talking with each insurance company to get the accurate information to create the best decision making.

Deposits

Deposit Rate

Bank	Saving Rate	Long Term Deposit Rate(12 months)
Krungsri Bank	0.3000	1.3500
Siam Commercial Bank	0.5000	1.3000
Kasikorn Bank	0.5000	1.3000
Bangkok Bank	0.5000	1.5000
Krungthai	0.5000	1.5000
CIMB	0.4000	1.5500

Thai Military Bank	0.1250	1.1500
United Overseas Bank	0.2500	1.3000
Land and Houses Bank	0.6250	1.8000
Thanachart Bank	0.4000	1.5000
Aomsin Bank	0.5000	1.5500

Criteria for choosing bank to deposit depends on interest rates. Mostly, people will consider interest rates for long term saving in order to get the highest return. For saving accounts, people will concern about convenience since they often withdraw money from ATMs so the higher number of ATM, the more convenient it will be. Bangkok bank and Kasikorn bank are the two biggest banks that have the most individual customers. They have the most ATM in Thailand for about 9,300 machines while Krungsri bank has only about 5,000 machines. The higher interest rate also affect decision making but only in a small proportion.

Moreover, online shopping has become new habit of people which leads to online transaction such as mobile banking and internet banking. People will tend to open accounts at the same bank with the majority of merchants to reduce transaction fee between different banks.

Bank	ATM
Bangkok Bank	9,330
Kasikorn Bank	9,349
Krungsri Bank	5,000

Mutual funds

Mutual fund is an investment program funded by shareholders that trades in diversified holdings and is professionally managed. Currently, there are number kinds of mutual funds to be chosen by investors. The question is which factors could differentiate it or induce people to make an investment in those funds. So, we can categorize decision of investor into three factors that are cost, benefit and risk. We pick the two interesting mutual-fund types which are *Equity funds* and *LTF* and both types are selected from four Thai famous commercial banks.

Equity fund

Firstly, let consider the equity funds. The four funds have a same investment policy which is around 65 percent of the fund’s NAV will be invested in risky assets or equity.

Afterward, the risk can be measured at the sixth level riskiness for all four funds. Therefore, there is an indifference decision for investors in risk aspects.

Cost also is the main factor for investor in order to invest in particular assets. Mutual funds which can generate the least cost for investor will induce most. According to the four funds, there are several fees consisted of fund investment such as management fees and registration fees. Among four equity funds, Buakaew Open-end Fund's total fee is 2.5% per annum of NAV. *K- Equity* is consisted of total fee not exceeding 2.065 percent of NAV. SCB selects equity fund has fee not exceeding 1.85 percent of NAV and also has unit transaction fee that is 10 baht per 1000 units and other fees. Krungsri equity fund has fee not exceed 2.27 percent per annum of NAV and also has transaction cost. In conclusion for this part, the SCB fund has the most incentive which is lowest cost. In another hand, Bangkok bank is the less interesting funds due to the highest cost.

At last but not least, the most incentive factor for fund investment is rate of return or how much the fund is able to generate profit to investors. Bangkok Bank equity fund is no dividend payment policy but the past performance always better than benchmark. So, investor might not be worried about falling price of funds. For K-bank, there is dividend policy which is not lower than .25 per unit and not over twice a year. SCB also has dividend payment policy even if they didn't mention exactly number of dividend. Krungsri has a dividend payment policy at maximum 12 times per year at least 10 percent fund's realized profit. Thus for the return expectation, Krungsri equity funds would be the best choice for investor who want to attain a lot amount of dividend payment.

Besides the three factors, some little detail could be a part of investors' decision such as initial investment required or how to make transaction. There is no difference in these little factors among the four equity funds since all fund can make transaction easily that is internet banking or online transaction and Four funds required a little minimum amount of investment.

LTF (long-term equity fund)

Now, move to another kind of mutual fund that's Long-term equity fund. The three main keys for investor are also the same. We have to consider benefit, cost and risk.

The riskiness will be the first key we're going to discuss. Similarity to the equity funds, LTF investment strategy is a little bit difference among the four funds. LTF fund manager will invest in a proportion of 65 to 75 percent on the listed company equity or any investment which make potential return to project. So, LTF is count as sixth level riskiness investment. Investment can go over this aspect since there is no difference among projects.

Considering the cost of LTF, Bangkok bank has management cost 1.5 percent of NAV per annum and other cost in some condition such as transaction costs. Meanwhile, K-Bank LTF has a cost around 1.975 percent of NAV per annum. SCB offer the cost around 1.85 to investors who want to invest in their LTF. The last bank, Krung sri, has total expense for their fund not exceed 2.27 percent of NAV per annum. Lowest cost must be the best choice for investors so the answer for investor might be Bangkok bank LTF since the cost is around 1.5 percent of NAV. Notice that cost in this case excluding other transaction costs.

The obviously benefit about LTF is deduction tax or taxation benefit. In Thailand, you can claim a tax deduction of your income up to a maximum of 500,000Bt. Other benefits are still about rate of return or dividend payment. There is no dividend payment policy for Bangkok bank same as the equity funds since the profit will be reinvestment for speculating future profit further. For K-bank, Dividend will be paid at maximum of twice per year. For each payment, the dividend paid will be based either on the maximum of 30% of retained earnings or net profit whichever lower or dividend or interest the Fund receives The fund reserves the right to pay no dividend in case that the calculated dividend is less than 0.25 baht. SCB also make an unspecified dividend payment. Krungsri might pay dividend not over 30 percent of profit. The best choice is the same for rate of return aspect which is Krungsri since they offer higher amount of dividend payment.

Members

Nattapol	Sertsuwankul	5504640763
Chayangkul	Kongprasertpong	5604640242
Patlapa	Suparngkarat	5604641034
Pongkarn	Kusaranukun	5604641273
Slintip	Kasemkosolsri	5604641596
Thitiporn	Thampongpan	5704642445