**Quiz #2**

**EE460 (Semester 1/ 2018)**

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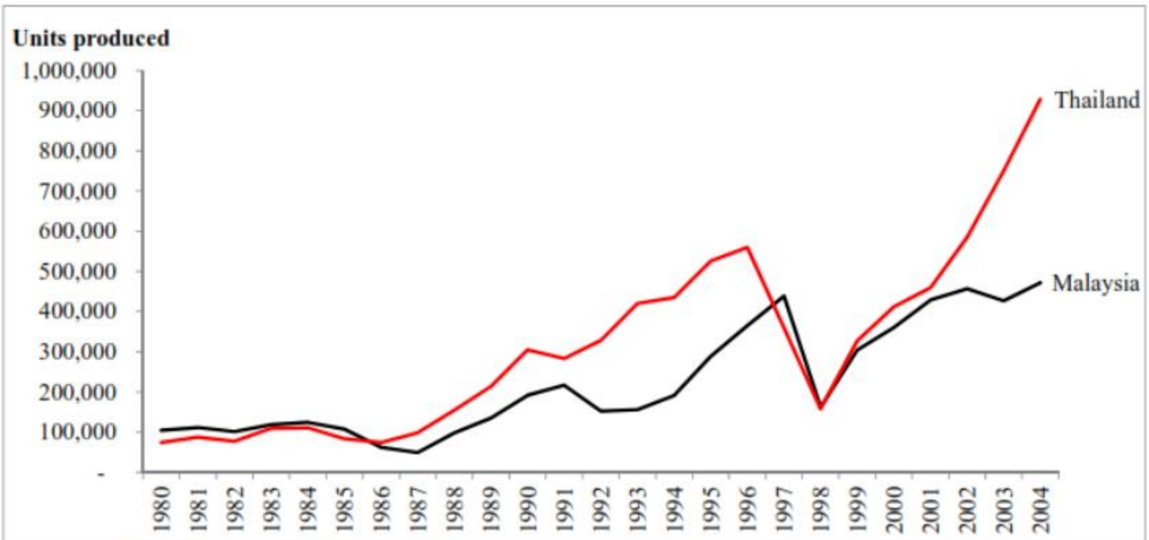
**Question 1: Bank of Thailand has been expressing its concern regarding domestic banks and the effectiveness of monetary policy. Why are domestic banks significantly relevant to the monetary policy?**

**Answer:** Although sizes of both bond and stock markets have been continuously increasing, most financial transactions in Thailand have still been conducted through banks. In addition, financial activities of banks directly affect both firms and consumers via their saving accounts and loans. Hence, the effectiveness of monetary policy is directly connected to the size and behavior of banks. Specifically, the adjustment of interest rate initiated by the Bank of Thailand will face the constraint if banks partly respond, dampening the economy-wide effectiveness of the monetary policy. Therefore, banks are still the main intermediaries propagating the adjustment of interest rate to both supply and demand sides of Thai economy.

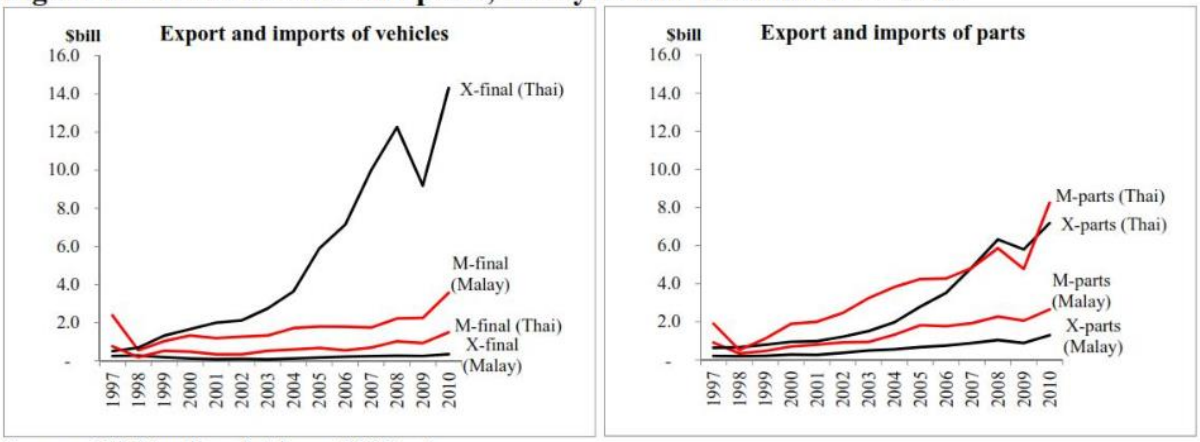
**Question 2: What are main factors influencing the different outcomes of automotive productions in Malaysia and Thailand as shown in the following figures?**

**Figure 12: Vehicles produced, Malaysia and Thailand, 1980-2004**




Source: Fuangkajonsak (2006 Table 1).

**Figure 13: Trade in autos and parts, Malaysia and Thailand 1997-2010**




Source: WITS online database, SITC v.3.

**Answer:** Malaysia has conducted the import-substitute policy, aiming at conquering the largest share of domestic market. On the other hand, Thailand has implemented the different program, targeted at export-oriented industrialization.  Malaysia's policies included the establishment of national car companies and the implementation of the market distortion schemes such as imposing the tariff barrier and the local content restriction. The early phase of conducting these policies was very successful but there was still a lack of technological development, especially the engineering skills to design and produce subtle parts.  Finally, the national car companies went to bankruptcy due to their limitations of both financial performance and technological competitiveness.

In the case of Thailand, Thai government has aimed at creating the regional cluster of car production. All government's promotions have been conducted in order to stimulate the export-oriented production.  The outcomes are clearly exhibited in given figures, showing that Thailand's total number of production and the total export of cars and automotive parts have significantly surpassed those of Malaysia. Furthermore, the automotive cluster in Thailand has become the important part of global production chain.  However, there is still a serious concern regarding the actual competitiveness because the R&D expenditure in Thailand has been very low for many decades. Therefore, as suggested in ADB’s report discussed in the class, the indigenous competitiveness is still limited, leading to the long-term vulnerability.