ABSTRACT

This paper studies the effect of exchange rate movement on the adjustment of Thai import prices. Due to the fact that US Dollar is a dominant invoicing currency of Thailand's imports, many previous studies normally estimate the effect from the exchange rate of Thai Baht against US Dollar. However, this paper will extend from the earlier studies by aiming to measure the exchange rate pass-through effect from the exporting country's currency. The investigation is conducted by vector error correction model based on two cases. First, the model using Thai import prices of goods from Japanese exporter to measure the degree of effect from Yen movement against US Dollar. Second, the model using Thai import prices of goods from Chinese exporter to measure the degree of effect from Yuan movement against US Dollar.

The empirical result shows that there is a pass-through effect from both invoicing and exporter's currency, in case of Thai import prices of goods from Japanese exporter. It is consistent to the import payment statistics that Thai imports from Japanese exporter are invoiced in both Japanese Yen and US dollar. On the other hand, there is only pass-through effect from invoicing currency in the case of goods from Chinese exporters. This is consistent to the statistics that US dollar is a major choice of invoicing currency.

Moreover, the degree of pass-through effect in the case of goods from Chinese exporters is higher than that one of Japanese exporter. It quite contradicts to the theory. As the fact that consumer goods, a proxy of goods from Chinese exporter, is more likely to be substituted by domestic goods than raw materials, a proxy of goods from Japanese exporter. Hence, one would expect the degree of pass-through effect in the case of Chinese exporter should lower than that one in the case of Japanese exporter.