

Relationship Among Money, Prices and Aggregate Output in Thailand

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Empirical Economics Letters, Vol. 8, No. 11, pp. 1063-1071, November 2009.

Abstract:

This paper investigates the relationship among monetary aggregates, prices, and aggregate output using Thailand's quarterly data from 1993:Q1 to 2006:Q4. The estimates of money demand function based on the quantity theory indicate a stable long-run relationship between real money demand and aggregate output when M3 is used as monetary aggregate. The estimates of the prices and output equations show that cointegration of the general price level, money stock and aggregate output exists when M1 is used as monetary aggregate. Results suggest that only M3 can be used in the real money demand function while M1 is a key determinant of prices and output. The success of monetary policy should depend on M1 and M3, but not M2 if the target is to stimulate growth and to control inflation.

Number of Pages in PDF File: 9

Keywords: Money, price level, aggregate output, cointegration

JEL Classifications: E31, E41, C32

Suggested Citation:

Jiranyakul, K., (2009), Relationship among money, prices and aggregate output in Thailand. *Empirical Economics Letters*, 8, 1063-1071.

Available at SSRN: <http://ssrn.com/abstract=1809704>