Abstract (summary):

At the present time, capital market development is a hot topic in Thailand since the government has recently approved a capital market master plan. The project altogether included 8 plans with an attempt to improve Thailand's capital markets. The goals of the plans are to increase the level of liberalization and the development of new products into the markets. However, these two plans have already been implemented in the past. This dissertation intends to studies the effects of past policies aimed at liberalization in 1987 and the initiation of the futures market in 2006. Stock return volatility, one of the variables used by investors to measure risk, is the variable of interest in this dissertation. The ARCH and GARCH models, which are effective tools used to calculate market volatility, are employed in this dissertation. The results from the ARCH and GARCH models show that conditional volatility increased after market liberalization in 1987 and the conditional volatility does not decrease as expected from the introduction of new products. Other than variances in volatility, this dissertation also focuses on the behavior of foreign investors from three perspectives, the effect of foreign equity flows on i) stock returns ii) stock volatility and iii) market liquidity. The dynamic relationship in these three perspectives is drawn from Vector Autoregression, the Granger causality test, the impulse response function and variance decomposition. The results contradict many studies which indicate that foreign investors did not exacerbate Asian crisis. However in normal period, foreign flows were found to have positive effects on market liquidity. Thus the costs and benefits of capital market liberalization strategies need to be carefully weighted.