Chapter 5

Conclusion

5.1 Conclusion

The finding of this paper examines causality between money supply M2 and stock prices SET index for the Thailand economy in the presence of a structural change over the period of monthly from 1976 to 2006 can be summarized as follows.

Both sets of data M2 and Set index follow the I(1) process with disappearing structural change between 1976 to 2006 that shown in Figure 4.1 and 4.2. The bivariate VAR model of M2 and SET index has one cointegrating vector with intercept but without trends model which conducted by Johansen method. Not only find cointegrating vector in VAR model but the relationship between M2 and SET index is also found by negative side.

Furthermore, Granger causality results find that it has direction of causality from SET index to M2 at 5% significant level.

From these facts possible to historical information may not be of much value in predict SET index in line that Cooper (1974), Pesando (1974), Rozeff (1974,1975) and Auerbach (1976) as issue from direction in causality test result which one way direction from SET index to M2 but another surmise that SET index, which important role of the dynamics of economy activity and businesses, reflect negatively all available information to monetary policy and future change in the monetary aggregated in line that Cooper and Rozeff perform in their research.

5.2 Recommendation

5.2.1 Policy

As know that SET index granger cause M2 or monetary will detect SET index before set monetary policy however it cannot ensure policy maker will stimulate economy after SET index decrease by inject the money into the economy because not only SET index show status of economy's country but there are other

economic variables also indicate the status of economy such Inflation rate, GDP, Import and Export and etc. Thus, investors should aware in this case and careful for investment.

5.2.2 Future Research

Although the finding of this paper has not structural change in period from 1976 to 2006, they may be found if data are conducted by more longer than that period which the way should do for investigate results and compare them with this results of this paper. Furthermore, this study is just cointegration and causality test between money supply and SET index. It restricts and narrows to explain and conclusion the results. Not only SET index, which effect to money supply in this research, indicate the status of economy but also act from other macroeconomic variables, Interest rates, GDP, Investment, Tax, Price index, Inflation rates and etc. Thus, conduction of other macroeconomic variables to join with SET index and money supply for future study is the better way for more ensure results and conclusion.