CHAPTER 2

1. Literature Review

This chapter explains that the past and current situations of foreign exchange rate fluctuations between Thai baht and US dollars from the macroeconomic indicators point of view and the current market efficiency of both currencies accompanied with related theories considering currency exchange rate and factors affecting the exchange rate. The literature review will provide the detailed analysis of the market efficiency of Thai baht and US dollars supported by proposed theories, models, and concepts.

1.1. The concept of the foreign exchange market

The foreign exchange market is a platform where one currency is traded in exchange for other. There are various participants who facilitate currency exchange trade of buying and selling currencies for the different countries. The major participants are central banks, commercial banks, financial institutions and hedging companies (Engel and Wang, 2011). Their function is to trade the one currency in exchange for other by speculating about the fluctuations of currency values and to make a profitable return for the clients including their brokerage commission (Giddy, 2009). The foreign exchange market is distinctively categorized in two states as one where commercial banks and central banks initiate for payment of buying and selling of commodities and services while on the contrary side, the financial institutions such fund management companies perform on daily basis. Apte (2009) indicated that the foreign exchange market consists of following functions which are mentioned below;

- Transfer function: In this function, normally conversion of currency takes place, the purchasing power of parity comes into the picture.

- Credit function: This function explains when one party needs to pay the funds in order to secure the goods and services against their invoice and banks come in between to facilitate the transaction with the help of a letter of credit. Bodnar (2012) explained that if one country seeks more credit borrowings more likely to face depreciation.
- Hedging function: The foreign exchange market explains that investors can also hedge the chances of risk associated with currency trading. This risk of losing or gaining against the currency rates can be reduced with the help of the hedging function of the foreign exchange market. Baum and Caglayan (2009) indicated that when the price of one currency changed against other lay the gain or the loss in the investment made.
- Theories related to the foreign exchange rate

In this section, the researcher tries to explain that in order to understand the market efficiency of Thai baht and US dollar, various theories need to be explained in the first place in order to understand why currency exchange takes place? The study of certain theories will clarify the currency exchange determination and later will clarify the market efficiency together with macroeconomic indicators.

1.2. Purchasing power parity (PPP)

This theory was originated before any other and it explained that in order to establish the currency exchange the price of goods X in one country would be equivalent in another country to determine the exchange rate between both countries. For example, the price of 1 kg of mango in Thailand is 33 baht/ kg and the same one kg of mango in the USA would cost $1 so in this case, the exchange rate would be:

$1= 33 baht

However, this method was not well supported as in one country there are many goods are available and ready for sale so which product can be an ideal case scenario to determine the exchange rate between both countries.

According to Allen (2010), explained that it deals with maintaining the same price level in the local as well as in the national economy. Allen further explained that price fixation for the local commodity would be treated as the same way for currency exchange rate but to assess the actual exchange rate this theory is not really productive because it doesn't account the involvement of tariff, speculation and capital flows which can affect the exchange rate. This method will only be useful for the commodities that are coming from foreign land to the domestic land and it will be sold in the domestic market only so it will not have the international exposure attached to it and this brings that PPP theory doesn't qualify to show the true market efficiency of currency and the economic position as well.

Bortov and Bodnar (2012), explained that purchasing power parity comprises two parts absolute purchasing power parity (absolute PPP) and the relative purchasing power parity (relative PPP). The absolute PPP is the purchasing power of one unit of the domestic currency is equal to the purchasing power of one unit is another country. In this case, one currency is going to be overvalued and the other currency is undervalued. The relative PPP is a theory when inflation in both countries takes place to determine the exchange rate.

Anderton and Kenny (2010) explained that purchasing power parity offers various advantages as it is very useful to assess the standard of living and provides a better picture of country GDP in order to understand the economic situation of one country.

Beneda (2009), also opinionated that PPP theory is difficult to calculate the exchange rate as it on the basis of change in the price indices but it doesn't reflect which price index it reflects whether it's the cost of living price index or wholesale price index for the calculation of price index.

1.3. International Fisher effect (IFF)

This theory is also known as Fisher's open hypothesis explains that the currency of a country with a higher interest rate will depreciate in the value of

currency compared to the country of lower as because it will start attracting the foreign investors to put money in the bank in order to get higher interest and this creates the demand of currency and then the value of currency appreciates and at the same time it will depreciate the value of the currency of the other country (Branson, 2009). This theory further suggested that real interest rate is linked to the inflation rate and it explains that there is an indirect relationship inflation rate and value of the currency.

Allen (2010) explained that international fisher effect is not ideal for short-term analysis because of the effects of different factors on the exchange rate predictions but it is highly applicable for the long-term determination of the currency value.

Irvin Fisher, the IFE can be calculated as follows:

$$(1+ r) = (1+ R) (1 + E (i)$$

Where

r	=	nominal interest rate of a country
R	=	real interest rate
E (i)	=	Expected inflation rate over the interest rate

Anderton and Kenny mentioned that the theory of international fisher is based on the situation where the capital is perfect in every scenario and capital movement is free and the real interest rates are constant in all countries which is not the real market scenario.

Chan et al. (2010) explained that there is no direct relation between interest rates and inflation rates. However, Bartov and Bodnar (2012) stated that can be found in certain countries and will be applied to only those countries. This method can be fully trusted to analyse valence of Thai baht and US dollar

1.4. Interest rate parity (IRP)

This theory explains the relationship between the spot rate of a country and the future rate of currencies of the same country. Chan et al. (2010) explained that there is an assumption that the risk-free rate will determine the rate at which currency can be converted to each other in a forward transaction. To understand the market efficiency of Thai baht and US dollar this method would be ideal as when the bank interest rates in Thailand are less than the USA bank interest rates then the US dollar currency must trade at below face value in forward contracts. This helps the investors to borrow the money from any country no matter what is the present exchange rate because the cost of borrowing is the same for all countries.

Farmer and Joshi (2009) opined that the IRP theory is based upon the assumptions the capital amount is transferable and the investors can borrow it by exchanging domestic assets for foreign assets apart from that the investors will get the opportunity of an option to choose from the assets which will generate a higher proportion of profit.

However, Apte (2009) stated that based on the assumptions it is certain that the change in the exchange rate will not affect the return on the assets. Hence the domestic, as well as the foreign investors, will both get the same amount of return for the asset.

1.5. Asset market model

The main concept of asset market model is that the currency rate of any particular country will increase only when that particular country will experience high capital inflow which will lead also the increase in demand of the currency and as a result it will appreciate the value of the currency indicated by Giddy (2009). Engel and Wang (2011) explained further that if a country with a high proportion of financial assets will have a lower burden in terms of debts and higher demand in terms of currency because financial assets are rapidly

converted into cash so this theory would be an ideal for the understanding of valence of Thai baht and US dollar.

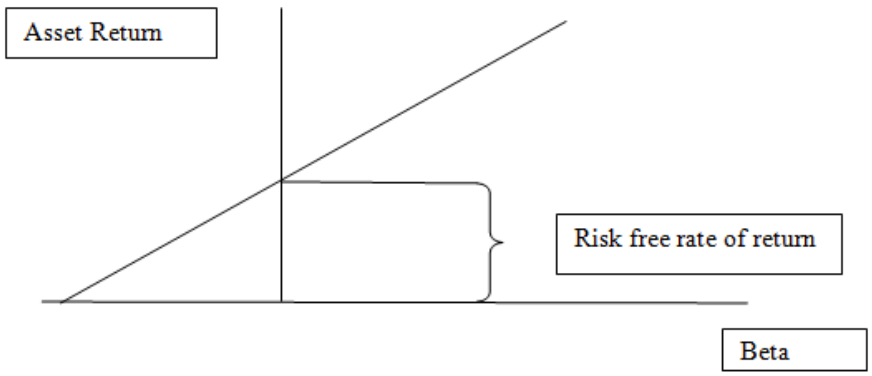


Figure: Asset Market Model

(source: Engel and wang, 2011, pp 43)

1.6. The balance of payments theory

The foreign currency price depends upon the change in demand and supply of domestic as well as the foreign countries (Duangploy et al. 2010) as value of any foreign currency depend on the demand of that currency in the home country as well as the foreign country so if there is a deficit in the balance of payment will decrease the value of the currency. On the other hand, if the there's surplus in the balance of payment will increase the value of the currency. The balance of payment concludes from the difference between export and import and when there's deficit it will decrease the value of the currency and the market efficiency of that particular currency and on the flip side if country secures a surplus from balance of payment will increase the value of currency and the market efficiency of that currency as well (DeFusco et al. 2010).

Moreover, Engel and Wang opinionated that balance of payment theory provides more concrete details about the value of foreign currency than purchasing power parity theory. Hence, this theory will guide the study of macroeconomic indicators of Thailand and USA to understand more specific about the Thai baht and US dollar market efficiency.

Baum and Caglayan (2009) further added that this is because the exchange rates are a combination of the demand and supply of the currency. Hence the determinants should be demand and supply rates of the currencies of the country

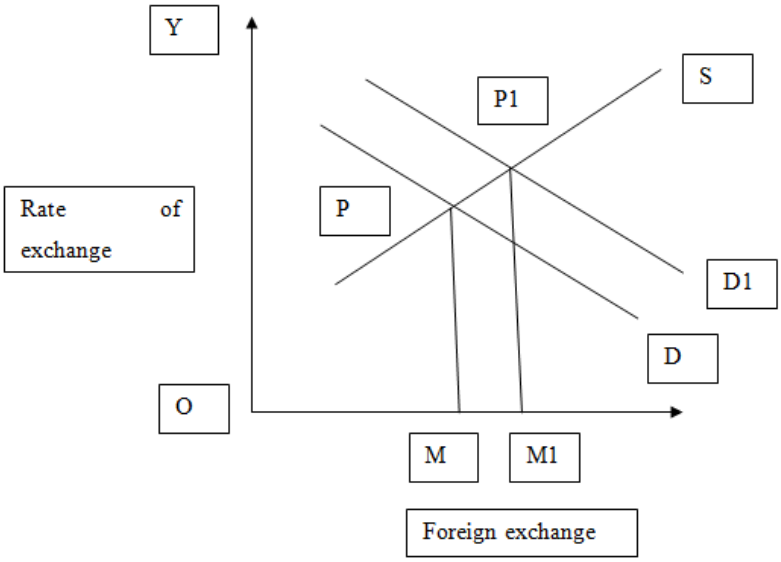


Figure: Balance of payment theory

However, Sheng and Liao (2004) contradicted that balance of payment theory has defect in it as because this theory conditioned only when the countries will have perfect competition and flow of money from one end to another would be smooth and steady but in export import business this condition is not satisfying because export import business in on credit also not only cash. The overall point of this theory is that it gives a proper picture of supplying of goods apart from export and import related as a result this theory is suitable to analyse the valence of both currencies (Thai baht and USD).

Macroeconomic indicators: In this section, the researcher tries to ponder the different factors associated trade relation between USA and Thailand and try to find valence of both currencies and also detail analysis to disclose the past scenarios of trade relation along with their trends. The main reason for studying this chapter is to investigate how the Thai baht and US dollars have performed against each other.

Export-Import (Balance of trade) between USA and Thailand from the period of 2010 to 2017

Table: U.S. trade in goods with Thailand (2010)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2010	682.6	1,644.8	-962.2
February 2010	700.6	1,552.2	-851.6
March 2010	745.9	1,869.7	-1,123.8
April 2010	748.1	1,786.5	-1,038.4
May 2010	679.4	1,666.2	-986.8
June 2010	676.5	1,916.4	-1,239.9
July 2010	758.4	1,899.6	-1,141.2
August 2010	746.0	2,094.3	-1,348.3
September 2010	708.9	2,100.0	-1,391.0
October 2010	806.2	2,084.0	-1,277.8
November 2010	834.6	2,091.0	-1,256.5
December 2010	889.0	1,988.8	-1,099.7
TOTAL 2010	**8,976.4**	**22,693.6**	**-13,717.2**

Table: U.S. trade in goods with Thailand (2011)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2011	888.3	1,944.6	-1,056.3
February 2011	986.5	1,734.6	-748.0
March 2011	990.7	2,231.2	-1,240.4
April 2011	801.6	2,083.5	-1,282.0

Month	Exports	Imports	Balance
May 2011	922.5	2,084.7	-1,162.2
June 2011	905.1	2,122.4	-1,217.4
July 2011	907.9	2,247.2	-1,339.3
August 2011	983.3	2,380.7	-1,397.4
September 2011	1,079.5	2,238.0	-1,158.4
October 2011	1,038.8	2,248.0	-1,209.2
November 2011	663.7	1,796.7	-1,133.0
December 2011	762.0	1,720.1	-958.1
TOTAL 2011	**10,929.9**	**24,831.6**	**-13,901.7**

Table: U.S. trade in goods with Thailand (2012)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2012	841.0	1,976.0	-1,135.0
February 2012	791.7	1,873.4	-1,081.7
March 2012	790.5	2,219.7	-1,429.2
April 2012	863.8	2,222.8	-1,359.0
May 2012	966.4	2,252.6	-1,286.2
June 2012	944.0	2,305.5	-1,361.5
July 2012	817.5	2,162.6	-1,345.1
August 2012	1,135.3	2,290.7	-1,155.5
September 2012	932.9	2,189.8	-1,256.9
October 2012	1,030.7	2,252.1	-1,221.4
November 2012	829.3	2,164.9	-1,335.6
December 2012	944.7	2,156.7	-1,212.0
TOTAL 2012	**10,887.8**	**26,066.8**	**-15,179.0**

Table: U.S. trade in goods with Thailand (2013)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2013	1,057.7	2,110.3	-1,052.6
February 2013	757.4	1,884.2	-1,126.8
March 2013	1,177.8	2,234.1	-1,056.2
April 2013	1,065.8	2,103.9	-1,038.1
May 2013	1,023.4	2,184.8	-1,161.4
June 2013	1,067.4	2,062.6	-995.2
July 2013	875.2	2,208.1	-1,333.0
August 2013	919.5	2,213.6	-1,294.2
September 2013	935.0	2,316.7	-1,381.7
October 2013	1,063.6	2,399.6	-1,335.9
November 2013	959.7	2,279.0	-1,319.3
December 2013	894.6	2,172.7	-1,278.1
TOTAL 2013	**11,797.0**	**26,169.6**	**-14,372.6**

Table: U.S. trade in goods with Thailand (2014)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2014	1,141.7	2,142.4	-1,000.7
February 2014	802.5	1,803.2	-1,000.7
March 2014	994.0	2,297.2	-1,303.2
April 2014	830.3	2,166.8	-1,336.4
May 2014	795.3	2,279.8	-1,484.5
June 2014	838.4	2,313.7	-1,475.3
July 2014	1,139.3	2,361.1	-1,221.8

Month	Exports	Imports	Balance
August 2014	941.6	2,327.7	-1,386.2
September 2014	1,151.1	2,367.5	-1,216.3
October 2014	1,044.9	2,490.1	-1,445.2
November 2014	940.0	2,187.9	-1,247.9
December 2014	1,195.8	2,491.9	-1,296.1
TOTAL 2014	**11,815.0**	**27,229.3**	**-15,414.3**

Table: U.S. trade in goods with Thailand (2015)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2015	1,046.9	2,209.6	-1,162.8
February 2015	778.9	1,937.8	-1,158.9
March 2015	1,115.1	2,638.0	-1,522.8
April 2015	980.6	2,562.1	-1,581.5
May 2015	928.9	2,355.5	-1,426.6
June 2015	1,036.9	2,481.2	-1,444.3
July 2015	816.0	2,321.3	-1,505.4
August 2015	955.5	2,357.1	-1,401.6
September 2015	1,033.1	2,383.9	-1,350.8
October 2015	829.1	2,569.7	-1,740.5
November 2015	776.6	2,458.9	-1,682.3
December 2015	931.2	2,347.0	-1,415.8
TOTAL 2015	**11,228.8**	**28,622.2**	**-17,393.4**

Table: U.S. trade in goods with Thailand (2016)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2016	741.1	2,192.0	-1,450.9
February 2016	802.2	2,217.8	-1,415.6
March 2016	889.5	2,374.7	-1,485.2
April 2016	789.9	2,250.5	-1,460.6
May 2016	856.9	2,452.2	-1,595.3
June 2016	802.7	2,469.2	-1,666.5
July 2016	820.5	2,572.3	-1,751.8
August 2016	853.0	2,771.5	-1,918.4
September 2016	964.2	2,505.6	-1,541.4
October 2016	936.5	2,595.2	-1,658.7
November 2016	975.0	2,683.6	-1,708.6
December 2016	1,035.9	2,404.7	-1,368.8
TOTAL 2016	**10,467.4**	**29,489.2**	**-19,021.7**

Table: U.S. trade in goods with Thailand (2017)

NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. The table reflects only those months for which there was a trade.

Month	Exports	Imports	Balance
January 2017	846.4	2,376.7	-1,530.4
February 2017	914.9	2,203.3	-1,288.5
March 2017	823.4	2,600.1	-1,776.8
April 2017	854.0	2,326.3	-1,472.3
May 2017	860.2	2,566.2	-1,706.0
June 2017	1,075.4	2,719.1	-1,643.6
July 2017	813.4	2,729.0	-1,915.6
August 2017	859.2	2,779.2	-1,920.0
September 2017	1,046.8	2,539.5	-1,492.7
October 2017	1,080.6	2,867.0	-1,786.4

November 2017	962.1	2,731.2	-1,769.2
December 2017	855.2	2,714.3	-1,859.1
TOTAL 2017	**10,991.6**	**31,151.9**	**-20,160.3**

In the year 2010, the USA imported more from Thailand than exported to Thailand and it had the negative balance of trade of around $-13,717.2 million dollars. While Thailand exported more to the USA of US$22,693.6 million dollars. In 2011, the USA imported $24,831 million dollars from Thailand while exported 10,929.9 million dollars. The balance of payment shows import is more than export to Thailand. In 2012, USA exported of worth about $10,887.8 million dollars and imported from Thailand $26,066.8 which reflects that the USA had deficit balance of payment towards Thailand of -15,179.0 million dollars in 2013, Thailand exported to $26,169.6 million dollars to the USA and imported around $11,797.0 from the USA. There was a deficit of -$14,372.6 million dollars to the USA from Thailand only. In 2014, Thailand exported $27,229.3 million dollars to the USA and imported $11,815 million dollars from the USA as the above chart of 2014 US trade in goods with Thailand shows that there was a deficit of -$15,414.3 million dollars to the USA. In 2015, Thailand again exported $28,622.2 million dollars goods to the USA and in exchange has imported $11,228.8 million dollars leaving the USA with a deficit of -$17,393.4 million dollars. Moreover, in 2016, USA imported goods from Thailand $29,489.2 million dollars and exported $10,467.4 million dollars back to Thailand and deficit amount of -$19,021.7 faced by the USA. Lastly, in 2017, USA imported goods from Thailand by far the highest value of $31,151.9 million dollars over the past seven years and exported $10,476.4 million dollars to Thailand.

1.7. Interest rates

In this section, the interbank overnight lending rate has taken into consideration and in the case of the USA, the federal rate. The reason for taking

interest rates in order to deduce the market efficiency of the Thai baht and the US dollar, this macroeconomic indicator holds a very important presence. The study of interest rates over the past seven years from 2010 to 2017 is done in this chapter.

1.8. Interbank overnight lending rates

The interbank overnight lending rates from the period starting 2010 and period ending 2017 are taken into consideration in this part of the study as in the first three quarters of 2010 interest rates maintained as steady in between 1.25%-1.50% while in the last quarter of 2010 in rose to the range between 1.50%- 2.3%. In 2011, Thailand interbank lending rates rocketed up from 2.3%- even more than 3.5%. In the year 2012, it remained steady compared to the past year but in the last quarter, it dropped to 2.8%. In 2013, it witnessed a further decline in interest rates as it had reached another level of 2.4%.

The interbank overnight lending rates from the year 2014 to later 2015 dropped to the new level of 1.5% and finally from 2016 to 2017 it was steady between 1.5% to 1.6%. The highest interest rate over these periods was 3.6% in 2011 and the lowest was 1.35% in 2010. The mean interbank rates were 2.3% and variance was between 3%-3.25percent. The main reason for choosing interbank overnight lending rate because this topic deals in international trade where one currency transacts with another currency so based on this characteristic this rate states all the benchmark for assessing the market efficiency of Thai baht over the period. The trend of interbank interest is overall gradually declining.

Figure: Thailand three-month interbank rate

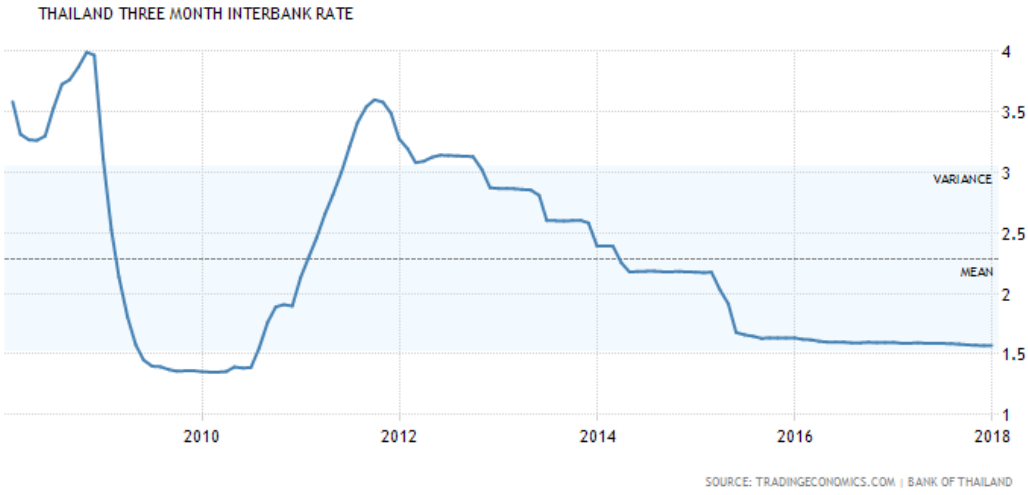
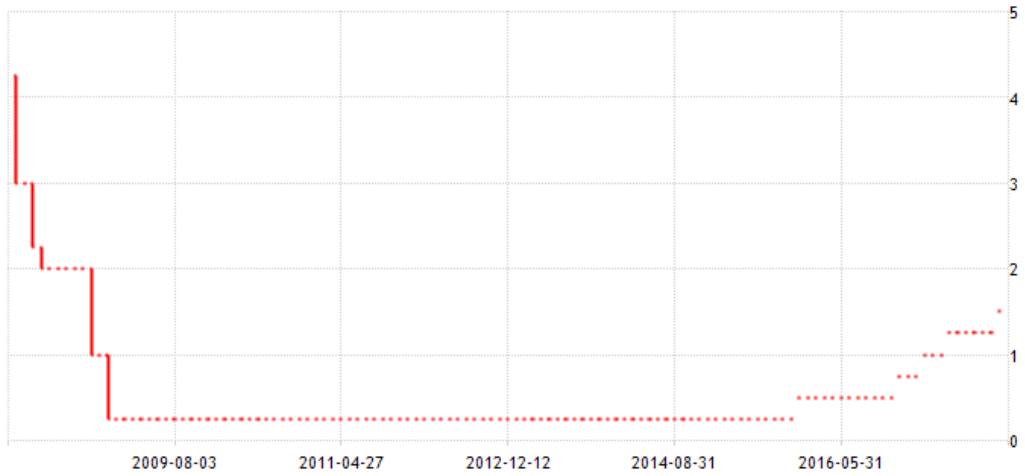


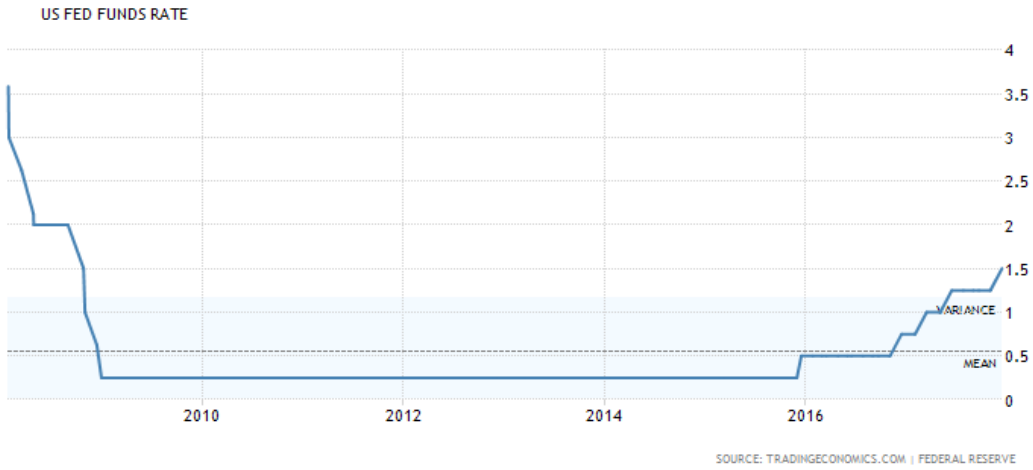
Figure: Mean and variance of three-month Thai interbank rate

Figure: An interest rate of Thailand

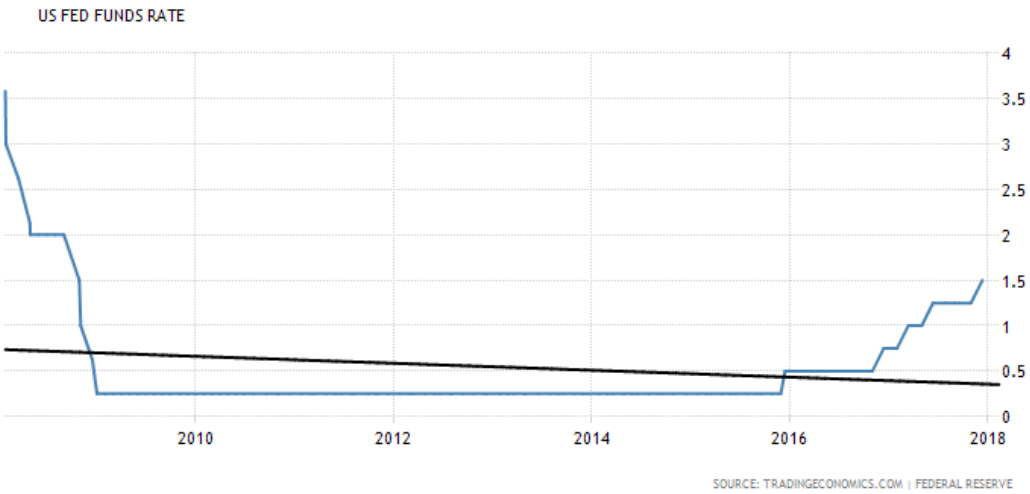
1.9. The US funds federal rates



The US fed funds rate from the year 2010 to 2016 has maintained a steady rate of 0.25% and finally, in the year 2017 beginning started to grew up and reached to 0.5% and later to another height of 1.5%



The mean of US fed funds rate had maintained to be 0.5% and variance is 1%. Furthermore, the picture below shows that the US fed funds rate has been declining over the years according to the trend analysis.



The US fed funds rate is considered to be the significant benchmark in financial markets. Goodfriend and Whelpley (1986) explained that this particular rate is the main rate in the US market and it anchors all other rates in the US. Nguyen (2013) indicated that studying of US fed funds rate could be the appropriate factor affecting the foreign exchange rate. On the other side, Chow and Kim (2004) explained that in order to assess the market efficiency of a certain currency, the study of interest rates would be an ideal and they studied the relationship between interest rates and exchange rates during the Asian crisis.

1.10.2.4.3 Manufacturing production index

Figure: Thailand Industrial Production

The manufacturing production index or in other words industrial production index is known to be as a criterion for measuring the production of industrial and manufacturing output. This macroeconomic indicator includes output from mining, manufacturing and utilities as certain part of GDP calculation includes manufacturing production and this is very significant from the understanding of market efficiencies. Lotfalipour et al. (2013) indicated that fluctuations in the exchange rate can actually impact the manufacturing sectors for their productions and investments. Dogruel, et al. (2010) examined the impact of fluctuations in the foreign exchange rates based on the performance of manufacturing index. Manufacturing production index affects directly the price and production costs and indirectly affects the foreign exchange rates.

The above chart explains about the Thailand industrial production index from the year beginning 2010 to 2017. It shows that in 2010 the manufacturing production index was more than 30% and declined gradually to 2011, reached negative of 30 to 35 percent of the manufacturing production index. In 2012, it had started to rise and reached to all time high 60% in mid-2013. The manufacturing production started to decline again and crossed below 0%. In early 2014 to 2017, it had started to rise gradually and maintained steady and reached slightly above and in between the range of 0-10 percent.

The US manufacturing index shows that production in the US had always been stable from 2011 to 2017 between -2.5% to 2.5%.

Figure: US manufacturing Production

1.11. International reserves

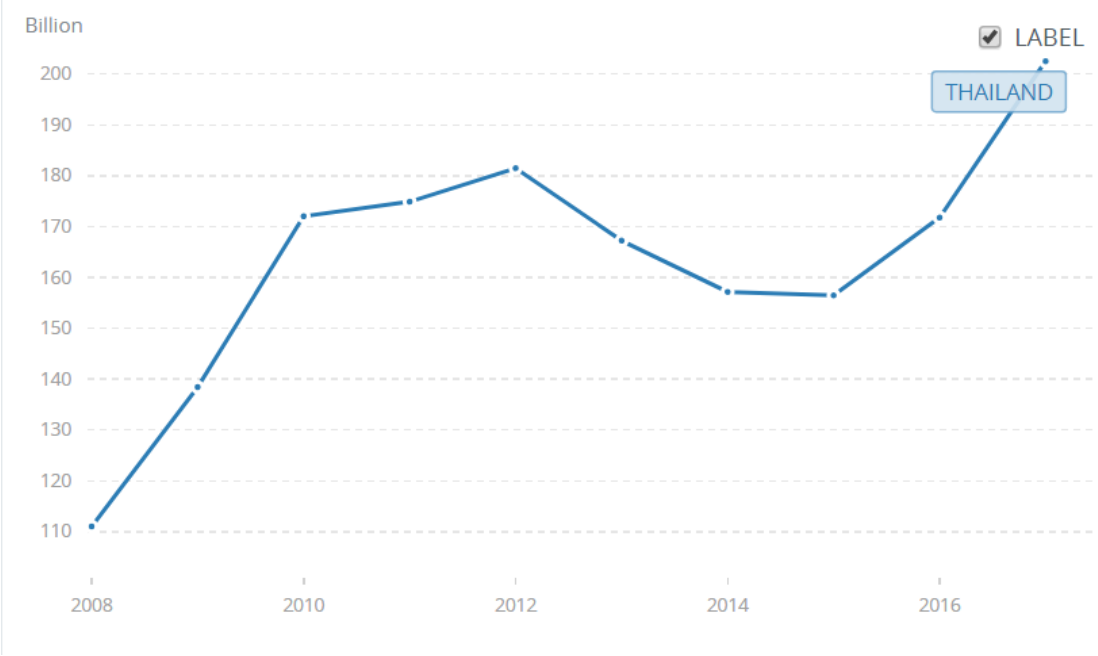


Figure: Thailand foreign or international reserves

The above data gathered from the world bank of Thailand foreign or international reserves from the period 2010 to 2017 annually. The foreign reserves include currency and gold deposits. In 2010 the Thailand foreign reserves amounted $172.028 billion and it was stable and consistent in 2011. It has increased to $181.841billion dollars in 2012 and then decreased to $167.23 billion dollars in 2013. The foreign internal reserves had decreased in the year 2014 and 2015 and reached to a new level of $157.163 and $156.46 billion dollars respectively. Lastly, in 2016 had increased again to $171.772 billion dollars and $202.538 billion dollars in 2017.

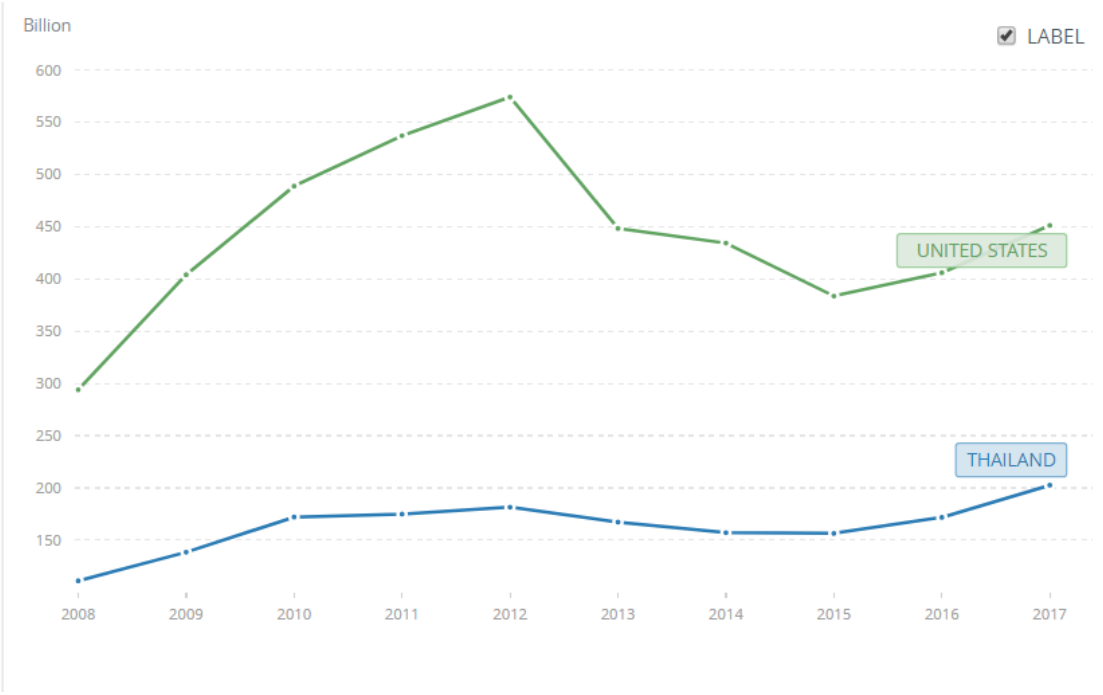


Figure: Thailand and US foreign reserves

The above chart depicts the foreign exchange reserves of the USA from the period of 2010 to 2017. This includes gold and currency and in 2010 USA had $488.928 billion dollars followed by $537.267 billion dollars in 2011. In 2012, USA secured $574.268 billion dollars of foreign reserves. In 2013 and 2014, the USA had $448.509 and $434.416 billion dollars respectively. In 2015, the US foreign reserves accounted $383.728 billion dollars followed by $405.942 and $451.285 billion dollars in 2016 and 2017 respectively.

In 1818, there was a first contract signed between Thailand and USA when an American ship captain visited the country having a letter from that time US president James Monroe. Thailand was previously known as Siam. In 1832, President Andrew Jackson sent his diplomat Edmund Roberts and was assigned in Sloop-of-war peacock, to the courts of cochin-china, Siam and Muscat in order to sign a treat of amity and commerce. This step was taken to promote trade and commerce within the treaty communities in early 1833 in the presence of Chao-phraya phra klang king Phran Nang Klao. In 1966, there was “Treaty of Amity and economic relation between the kingdom of Thailand and the United States of America signed in Bangkok. This treaty provides American citizens and

business parties to own a company or a majority of shareholding and there will equity and fair-trade practices. The companies in this treaty are exempted from many trade restrictions which are imposed by the Thai foreign business act 1999. In this case, the American directors or shareholder can have the minimum 51% but for other countries mostly can have 49%. This treaty restricts American companies to involve in certain business activities such as are as follows:

1. Communication
2. Transportation
3. Fiduciary function
4. Banking involving depository functions
5. Exploitation of land and natural resources
6. Land ownership
7. Domestic trade in agricultural products.

This treaty also benefits Thai citizens to apply for visas to open their business with minimum formalities and profits derived from their business are entitled to be remitted to Thailand freely and their assets will also not be compromised. Thailand also has free trade agreement between the USA and it was signed in the presence former US president George W. Bush and Thaksin Shinawatra to negotiate trade agreements.

1.12. The Valence model (Vroom's expectancy theory)

Vroom's expectancy theory was developed by Victor. H. Vroom, a Canadian psychologist in 1964. He offered this theory to understand motivation level. He further stated that any motivational level achieved towards certain action can be derived from the results or outcomes. Vroom's expectancy theory consists of two models-the valence model and the force model.

In this paper, the researcher tries to incorporate the valence model particularly. In other words, the valence model explains that discussing any events or outcomes that describe attractiveness or averseness. The "attractiveness" means the positive valence or outcomes and "averseness" mean

negative valence or outcomes from the events, performance or situations. Although this model is related to motivation and emotion. It can be used to analyse the positive valence (attractiveness) and negative valence (averseness) of trade relation and activities happened with Thailand and USA from the period 2010 to 2017. This model will explain further in chapter 4 the macroeconomic indicators which are being discussed earlier in this chapter whether they were positive or negative valence towards the country trade practices and the investor. The researcher will use this model to explain the macroeconomic indicators used in this chapter and the attractiveness or averseness in corresponding to Thai baht currency and US dollars.

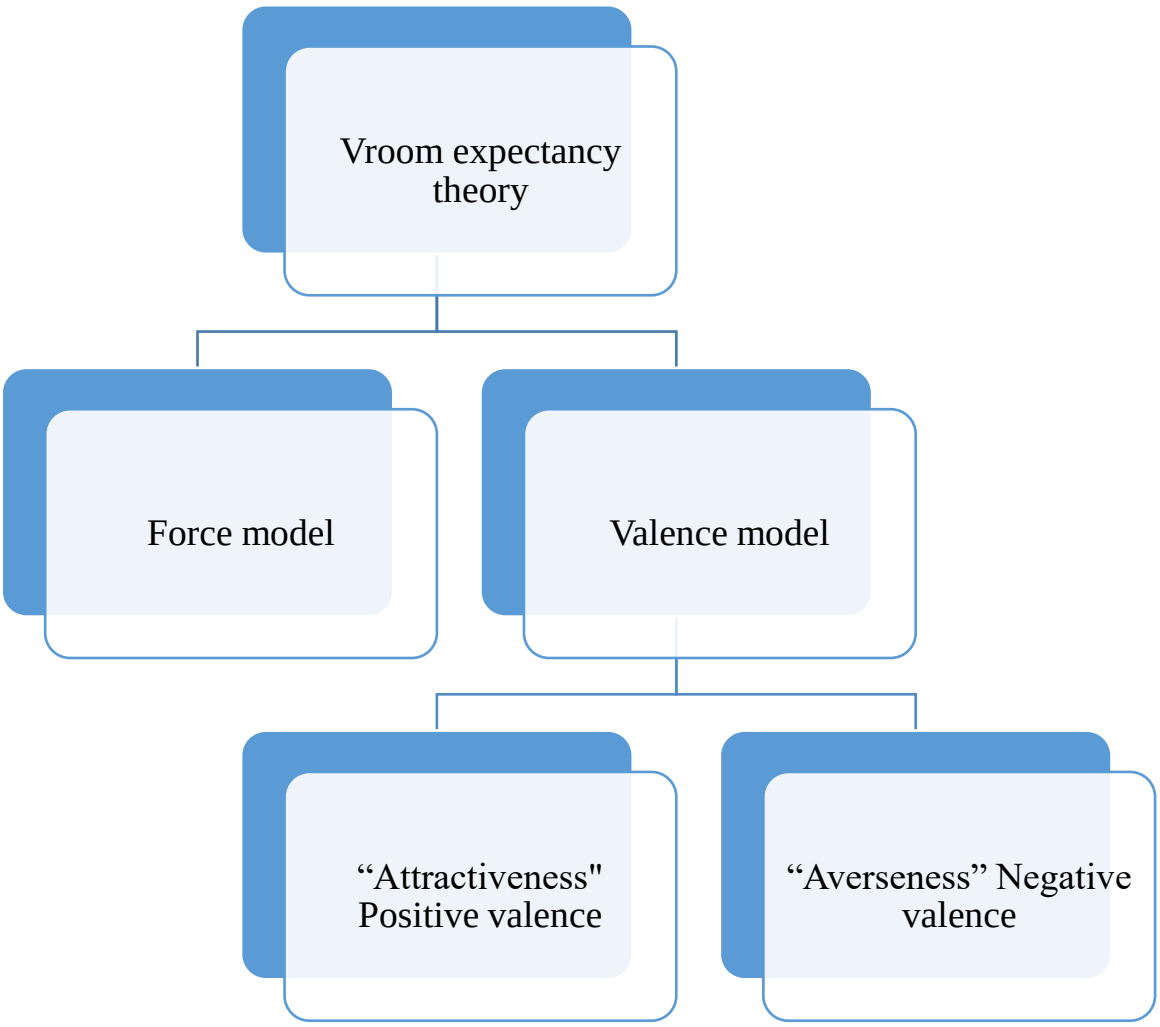


Figure: The Valence model (Vroom’s expectancy theory)

1.13. Conclusion:

In this chapter, it concluded the intricacies of the foreign exchange market and their functions followed by the various theories which support the fluctuations of the foreign exchange market. These different theories methods are well explained with the instances of past researcher to analyse the pros and cons of those methods. Furthermore, this chapter explains the macroeconomic indicators as there are many indicators to compare the two different economies but in case only four of them were taken such as Balance of trade, interest rates, manufacturing production index and international reserves. The data were taken from secondary sources such as the World Bank and trading economics from the period 2010 to 2017. This chapter partially answered the research questions about the positive valence or negative valence of Thai baht and USD over the period and the impact of discussed microeconomic indicators on Thai baht and USD but will be well justified in chapter 4. This chapter also answered the question of trade relation between these two countries.

This chapter presented the trade relation between Thailand and USA which come from the long-time back as these two countries are free to trade with a different source of benefits except for US companies to do business in certain areas. In addition to this, it brings many benefits for both the nationalities to cherish for as for Americans citizens can have 51% as a shareholder while Thai citizens can have their operation started in the USA with minimum formalities and can transfer their funds from America to Thailand freely without any assets damage.

The model selected for this study is the Vroom expectant theory which has two forces and out of those two forces, the valence model supports this topic. The components of this model will explain the positive or negative valence of both currencies during the mentioned period after doing an analysis of macroeconomic indicators in a further chapter.