



**THE EFFECT OF MARKET, INTEREST RATE, AND EXCHANGE RATE RISKS
ON SECTOR INDICES RETURN: EVIDENCE FROM THE STOCK
EXCHANGE OF THAILAND**

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ABSTRACT

This paper investigates the intertemporal sensitivity of sector indices return in the Stock Exchange of Thailand to core market, interest rate, and foreign exchange rate risks by using GARCH-M. The results in sector indices return generating process suggest that the market risk is the most important determinant in all cases. Foreign exchange rate risk is second best factor. However, interest rate risk is not significant over the period considered. In addition, the results in sector indices return volatility show that interest rate and foreign exchange rate volatilities are crucial determinants.

Keywords: market risk, interest rate risk, exchange rate risk, GARCH, GARCH in Mean