

Linkage between stock prices and exchange rate during subprime crisis

ABSTRACT

This paper presents and tests a monetary model that includes the effect of stock prices on the exchange rate before and after subprime crisis. This model applies to the Baht/US dollar (BAHT/USD). The period of the study is divided into 2 periods, pre-crisis (2001 – 2007) and post-crisis (2008 – 2010), using the monthly data from January 2001 to December 2010. The empirical result and analysis are conducted by vector auto regressive (VAR.). The impulse response function and variance decomposition were applied in the study.

The empirical findings revealed that Thailand's Stock Market links to the exchange rate through trading channel before the crisis. However, the linkage has changed from trading channel to investment channel after the crisis.