

ABSTRACT

This study was conducted to examine the impact of the change in Federal Funds rate target on the Stock Exchange of Thailand in terms of return and return volatility at the firm level analysis. This study adopted the event study approach with the pooled (unbalanced panel) data analysis. By using a sample of 82 announcements (20,417 firm – announcement observations) during 2000 – 2010, several findings were revealed.

First, the results showed that the stock return in Thailand was negatively affected only by the unexpected change in the Federal Funds rate target. The stock return volatility in Thailand was affected by the change in Federal Funds rate target in certain condition.

Second, the results also showed that the unexpected change in Federal Funds rate target with the rate increase decision and the unexpected change in Federal Funds rate target that was considered to be favorable to the investors negatively affected the stock return in Thailand. However, there was no evidence supporting the asymmetric response of the stock return volatility in Thailand to the information content of the U.S. monetary policy announcement.

Third, the evidence supported that the firm's characteristic mattered only for the return framework since the Thai stocks which are large-sized, have high cash flow and high debt ratio were negatively affected by the unexpected change in the Federal Funds rate target.

Fourth, the evidence also supported that the industrial structure was relevant for both the return framework and the return volatility framework since the stock return and the stock return volatility of the capital intensive industries in Thailand were affected by the unexpected tightening monetary policy by Federal Reserve.

Fifth, the results revealed that the stock return and the stock return volatility in Thailand responded to the change in the Federal Funds rate target differently under the different monetary policy period in Thailand.

This study is important for academicians, to use the findings of this study to further explore this topic and to conduct further research. Investors can also make use of the findings in making the corporate finance decision and the asset allocation decision. Policy makers in Thailand will benefit by using the findings in formulating effective monetary policy.

