

ABSTRACT

This paper investigates the relationships among SET index, gold price, government bond (GB) yields, and Treasury bill (T-bill) rates in Thai's financial market. The paper uses Johansen cointegration method and Vector Error Correction Model (VECM) to examine the movement of variables in the long-run and their speed of adjustment in the short-run by dividing period into the recovery period from March 2001 to June 2007, and the financial crisis from July 2007 to December 2010. The results of long-run relationship found that SET index has a positive relationship with gold price, 2-year GB yield and 3-month T-bill rate but it has an inverse movement with 1-year, 10-year GB yields, and 1-month T-bill rate in the recovery period. Meanwhile, SET index has a positive relationship with gold price, 1-year, 10-year GB yields, and 3-month T-bill rate whereas it has a negative relation to 2-year GB yield and 1-month T-bill rate during economic crisis. For the short-run, SET index has the fastest speed of adjustment by adjusting downward to long run equilibrium. While during financial crisis, the speed of adjustment of 1-year GB yield increases from earlier period and adjusted upward after deviating from long-run path. Results from impulse response functions found that the recovery period all assets are negatively response to the shock of SET index and only it has a positive response to the shock of itself, while the variance decomposition result found that the variation of SET index and gold price are influenced to the change of themselves by almost 99%. Besides, during crisis the impulse response functions exhibits that SET index has an inverse response to the shock of other assets this result is consistent with the test of variance decomposition found that 98.95% of the variation of SET index can be explained by itself.