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HOW INFLATIONARY ARE OIL PRICE HIKES? A DISAGGREGATED LOOK AT THAILAND USING SYMMETRIC AND ASYMMETRIC COINTEGRATION MODELS

Source: Ibrahim, M. H. & Chancharoenchai, K. (2014). How inflationary are oil price hikes? A disaggregated look at Thailand using symmetric and asymmetric cointegration models. *Journal of the Asia Pacific Economy*, 19 (3), pp. 409-422.

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Keywords

Inflation

Disaggregated analysis

Oil prices

Thailand

Introduction

In the case of Thailand, the Bank of Thailand reacted to raise its benchmark interest rate five times from July 2010 to March 2011 with the total increase of 125 basis points, but still looming inflationary threat as oil prices are expected to stay high due to the increased oil demand from China, India and Japan for its post-tsunami recovery (Thai Financial Post, 2011).

There seems to be a need to uncover the degree of oil price pass-through into consumer prices for Thailand.

This study investigates the inflationary impacts of oil prices on the aggregate price level and various disaggregated price levels for the case of Thailand.

The Inflationary consequence of oil price fluctuations classified into:

Macro-oriented focus

The impacts of oils prices on goods prices at the national or aggregate level.

Micro-oriented focus

The implications at the commodity level.

The authors included the following variables in the analysis:

Consumer prices *(p)*

Oil prices in US dollars *(o)*

Thai baht-US dollar exchange rate *(e)*

Real output *(y)*

Data preliminaries

Data

The analysis employs quarterly data covering the period 1993.Q1-2010.Q2.

Conclusion

- Our findings serve as a confirmation that the recent escalating oil price does bear an inflationary threat to Thailand.
- The oil price is inflationary for the general price level.
- Due to the noted asymmetry in the consumer price adjustment process, the consumer prices tend to rise faster in the face of oil price increases.
- There is no immediate offsetting effect when the oil price decline and, hence, the consumer prices tend to remain high.
- The results at the disaggregated level should be useful for policy-makers in designing appropriate policies in curbing the inflationary consequences of oil prices.
- With the exception of the food prices, we find evidence supportive of the long-run relations between consumer prices, real output, oil price and exchange rate for all price indexes.