



✎ Editorial ✎

Loss from Fuel Subsidy, Cost of Dwellings, Efficiency of Stock Market, and Financial Engineering

This edition of the Journal carries four articles and a book review: the first examines the cost to government of fuel subsidy, the second reveals what a buyer of a condominium is paying for, the third tests the evolving market efficiency of Thailand's stock market, and the fourth essentially describes the strategy that banks in the U.S. had taken to heap a significant amount of risk upon themselves (which may hold some cautionary lessons for banks elsewhere).

Jirath Chenphuengpaw of National Institute of Development Administration calculated the deadweight loss of a cross price subsidy on biodiesel B5 (5% vegetable oil). The government-set retail price was subsidized by oil taxes and by the oil fund of the high speed diesel. The study estimated the variation in demand and supply in the retail markets of high speed diesel and biodiesel B5 to calculate the deadweight loss. The model obtained was then used for a simulation to find the optimum pricing policy. The cross-price subsidy piled up some 11.5 billion baht of deadweight loss over the 4-year period in which the time series data was generated. The loss occurred in the high-speed diesel market. The study suggests a continuous collection of fuel tax rather than a cross-price subsidy. Rather than being used to subsidize the B5 diesel, the oil fund should be used to stabilize retail price levels. Government should maintain tax rates in a way that makes the proportions of retail price and cost of the two fuels equal in order to avoid this kind of economic loss.

What is a condominium buyer paying for other than the very nice unit? Kiriya Kulkolkarn of Thammasat University's Faculty of Economics and Chotiwiwat Laophairoj of the Italian-Thai Development Public Company Limited have the answer with this timely study of the rapidly expanding Bangkok housing sector. They used the hedonic price model to analyze the attributes that determine the price of condominiums in Bangkok and employed the Box-Cox technique to find an appropriate functional form of the model. The study period is 1-31 January 2011. The results show that cost of a condominium in Bangkok is determined by its location, how near it is to a sky train or subway station, the unit's size, furnishings, total number of units in a project, land size, how long the buyer has to wait for project completion, the developer's reputation, parking space, the fee for maintenance and services, and number of bedrooms. No surprises there. But the useful refinement is the

relative weights of the attributes in the setting of the price, a helpful reference for buyers, developers and the banks.

The study of Anya Khanthavit of the Faculty of Commerce and Accountancy of Thammasat University, Natachai Boonyaprapatsara of Kasikorn Securities and Arunsri Saechung of Kiatnakin Bank, all in Bangkok, brings welcome news to the capital market. Testing the evolving market efficiency of Thailand's stock market using the time-varying STAR model with a $p > 1$ lag to reveal gradual or rapid changes in efficiency level, they observed that the daily SET index sample data from April 30, 1975 to May 11, 2011 showed that the market efficiency rose gradually rather than in spurts during certain periods. They conclude that the degree of efficiency of SET is significantly higher today than it has been in the past.

The fourth article, by Pituwan Poramapojn of Chulalongkorn University, sheds light on what has led to many U.S. banks getting very nervous during the now famous subprime crisis that erupted just when this millennium began, marked by the expansion of the securitization market: securitization is broadly defined as the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security. It was introduced as a means of funding for U.S. mortgage banks. The study looked at four types of loans, namely, mortgage, consumer, commercial, and other loans (those secured by real estate other than mortgage loans). The results show that the banks use securitization as a financing source to fund new loans rather than as a means to reduce their risk. During the subprime crisis, banks that securitized mortgage loans were exposed to risk from retained credit enhancing interest-only strips rather than from the effect of securitization itself.

We thank Prof. Direk Patmasirawat for the review on the book, *Economic Valuation of Tourism Destinations*, written by his colleague, Assoc. Prof. Udomsak Seenprachawong, in the National Institute of Development Administration. The book's message is that we gain from nature more than that we pay for and this imbalance inevitably results in the degradation of the natural resources. The book presents the application of economic theories and tools to base the economic valuation of natural resources and cultural sites. The author goes back to his extensive work to explain the concepts and methods of economic valuation of mangrove, corals, national parks and cultural sites in Thailand. The techniques, from data collection to analysis (using LIMDEP software), are instructive and useful for students and practitioners. The Thailand Research Fund sponsored the publication of this book.