ABSTRACT

VECM MODEL AND ANALYSIS OF IMPULSE RESPONSE FUNCTION THE FARMER TERMS OF TRADE IN INDONESIA

By

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In this study VECM model was used to understand the relationship of Farmer Terms of Trade in Indonesia (NTP), Prices Received by Farmers Indices (It), and Prices Paid by Farmers Indices (Ib) as will as the behavior of NTP variable when shock happens at It and Ib. the model parameters are estimated by Maximum Likelihood Estimation (MLE). The result show that VECM order two model can explain more than other models. The response of farmer terms of trade to the shock of exchange prices received and paid by farmers is fluctuated and lasts permanently.

Key words : time series, Vector Error Correction Model (VECM), cointegration, Impulse Response Function (IRF).