ABSTRACT

THE IMPACT OF EXCHANGE RATE MOVEMENT, LEVEL OF BI RATE, AND OUTPUT GAP TOWARD THE INFLATION IN INDONESIA (2005:07 – 2013:04)

By

HADI PURNOMO

The problem of inflation in Indonesia was not only the short term occurrence but also was the long term occurrence. It means that, the inflation in Indonesia not merely caused by the failure of implementation discretion in monetary sector by the government which is often done to stabilize the fluctuation of general value level in short term, but also indicated that there is still structural barriers in Indonesian economy which couldn't be overcome thoroughly.

The aim of this research was to find out the inpact of exchange rates, the inpact of BI rates, and the impact of output gap toward the behavior of inflation through OLS and ECM method.

The result of this research showed that there was significant effect in the exchange rates and output gap toward the inflation in long term, while for variable BI rates there was only significant effect toward the inflation in short term. In addition it was found that the value of adjusted R square is 83%. It means that 83% of movements in inflation can be predicted from the three variables, whereas 17% was explained by other variables outside the model.

Keywords : Inflation, Exchange Rate, Output Gap, OLS and ECM