ABSTRACT

EFFECT OF INTERNATIONAL RESERVES AND FINANCIAL DEEPENING AGAINST REAL EXCHANGE RATES

By

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Indonesia's economy could no longer separated to the world economy. This occurs after the system was followed by an open economy that is always associated with their activities and can not be separated from the phenomenon of international relations. Economic openness has resulted in the development of a country's balance of payments which include trade flows and foreign capital flows of a country. One of a capital flows that can get into the country is international foreign reserves that can be derived from international trade by that country. Increased exports of a country will take advantage of the increase in revenue, increase in foreign exchange, transfers of capital and the increasing number of employment opportunities.

This study has two main objectives, namely to determine the effect of International Reserve of the Real Exchange Rate. Second, determine the effect of Financial Deepening on Real Exchange Rate. The data used are secondary data time series over the period 2005.01 - 2012.12. Models are estimated using the Ordinary Least Square (OLS).

The empirical results showed that International Reserve and Financial Deepening give effect to the Real Exchange Rates in Indonesia, although the results of this study are between Reserves and Financial Deepening, International Reserve which gives a better effect in the stability of Real Exchange Rates in Indonesia.

Keywords: international reserve, exchange rate, financial deepening, OLS.