

ABSTRACT

THE CONTRIBUTION AND INFLUENCE OF BI RATE TOWARDS INFLATION, EXCHANGE RATE AND AMOUNT OF MONEY CIRCULATION (PERIOD OF 2007:01-2014:06)

By

DENIS ARIS WIBOWO

The purposes of this research are to find out and to analyze the role of BI rate towards inflation, exchange rate, and amount of money circulation within the period of 2007:01-2014:06. The data was analyzed using *Vector Error Correction Model* (VECM) method. The variables in this research included BI rate, inflation, exchange rate (Rp/\$), and the amount of money circulation.

In accordance with the data analysis, it was revealed that: (1) From the *impulse response* analysis it can be concluded that the inflation, exchange rate (Rp/\$), and amount of money circulation responded quickly towards the shock rate of BI in the beginning of period after the shock occurred. The inflation response was negative on the adjustment of BI shock rate; the exchange rate (Rp/\$) response was positive; and the money circulation response was negative. (2) From the *variance decomposition* analysis it can be concluded that there was another factor contributed to BI Rate Dynamics excluding BI rate itself, it was the inflation which was 40% at the end of period. Based on the analysis of *variance decomposition*, it was found that the biggest contributor of the Inflation Dynamics was the inflation itself which was 97.3% and 25% was contributed by BI rate till the end of the period. In the Dynamics of Money Circulation, the biggest contributor was the money circulation itself which was 96.7% and only 3% was contributed by BI rate. In Exchange Rate Dynamics, the biggest contributor was the exchange rate itself which was about 96% and only 4% was contributed by BI rate till the end of the period.

Keywords: BI rate, inflation, exchange rate, amount of money circulation, VECM