CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Based on the empirical results of research and discussion from the previous chapter, the main objective of this research is to examine the effect of Economic Growth, Foreign Direct Investment and Interest rate on Inflation in Indonesia over quarterly period 2000 to 2014. In this paper, the author used Error Correction Model (ECM) model to empirically test the effect of Economic Growth, Foreign Direct Investment and Interest rate on Inflation in Indonesia. From the analysis of data that has been conducted, it is obtained the following conclusions and recommendations.

6.1 Conclusions

1. Based on estimation in this research, the value of ECT coefficient -.399% indicates that the balance of short term fluctuation will be corrected toward balance in the long term, in which the adjustment R-square occurs at 0.429 in the next period.
2. Based on research results that variable of Foreign Direct Investment has negative and significant impact on Inflation in long term : The Case of Indonesia over quarterly period 2000 – 2014. This shows that the rise in Foreign Direct Investment 1% will reduce the level of inflation 2.083%.
3. Based on research results that variable of interest rate has positive and significant impact in short term and negative and significant impact in long term on Inflation : The Case of Indonesia over quarterly period

2000 – 2014. Interest rate increase 1% it will be increase inflation amount 2.116% in short term and Interest rate increase 1% it will be decrease inflation on 0.188% in long term.

6.2 Recommendation

1. Government should to increase the Foreign Direct Investment in Indonesia because FDI can reduce inflation in Indonesia. The reason is FDI come it will increase the capital come to Indonesia. After increasing capital, it will be increase the total output in Indonesia. So, total output increase mean the supply increase and will reduce inflation.
2. Interest rate did not effect on inflation in Indonesia in short term because the price of commodity in short term increasing suddenly. The increasing in price in suddenly because the supply on market decreasing. So, the government should maintain the supply of commodity in Indonesia. Interest rate will appropriate to reduce inflation in long run. So, the effectiveness of interest rate policy in long term and government should using this policy to decrease inflation in long term.
3. For the next research, to deepen this study by adding other variables and extend the research data for provide the result are more accurate and becoming better.