

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusions

The aim of this thesis is to describe the determinants of money demand in Indonesia from ARDL Approach and to examine the long term and short term determinants of broad money demand in Indonesia by quarterly data from Januari, 1997 to December, 2014. Unlike the previous studies the current one considers the components of real income. It splits the domestic income into its components such as consumption, investment, and export expenditures.

From the development of economic growth in Indonesia, it can be concluded that the economic growth increase is consistent, regardless of the monetary crisis Indonesia in 1998. Furthermore, the effect of consumption means that their economic activities. It means the expenditure made by the people affected by income. Increase the income of the people will increase the consumption too. So between consumption and saving would be balanced in the use and storage that affect by income. While the influence of investment means have the property such as money, savings, bonds etc. Investment affects the growth of the country's economy, where investment one of choose to got sources of income. Furthermore, export is important factors that affect the development of the economy. Describe export is the concept of economic development, in the presence of international trade. On interest rates, increase interest rates cause people are more likely to precipitate the money in the bank. This will cause the amount of money circulating in the community declined. Conversely, when

decreasing interest rates people not save money in the bank, but to invest it in forms other investments. Of course it can be increase the amount of broad money in the community. It can be concluded that the interest rate fluctuations may affect the amount of money demand in the community.

Based on the empirical result and analysis before, this study used Autoregressive Distributed Lag (ARDL) method and has some conclusions about the results. First, based on the result of stationary test, no one variables is stationary at the level of the unit root test level. But, on the level of first difference the result indicate that all the variables stationary condition at at 5% significant level.

Second, based on the results of cointegration test, bound test shows that all variables have long-term cointegration between dependent and independent variables. The results of the cointegration can be seen that all variables is cointegrated to broad money demand in Indonesia in the long term.

Third, based on the estimation of ARDL model (4,0,4,4,1) shows that the variable of M2 (-2) lag 2 from M2 and the variable of M2 (-3) lag 3 from M2 in significant have negative impact to M2 ($\alpha = 10\%$). Its mean the broad money on a quarterly is significant and have negative impact on broad money on a next quarterly. But in lag 3 shows positive and significant in broad money on a next quarterly. Based on the coefficient decrease 1% (relative) in broad money on a quarterly, the ceteris paribus will decrease broad money 0.1% (relative) on a next quarterly and will increase the broad money 0.15% (relative) on a next quarterly.

In the short term, the coefficient of error correction (-0.790237) are statistically significant at 10% with a negative sign. The coefficient of error correction (-0.790237) shows the speed of the adjustment process in the event of disruption/shocks to the balance. Approximately 79% imbalance that occurs in prior periods will be back at the point of balance in the current period. The estimation results have Adjusted R-squared of 0.85. It's mean that the independent variable has been able to explain the dependent variable of 85%, the rest is explained by other variables outside the model. Based on the estimation, variable of M2, FCE, EIG, and i are significant, whereas variable of EXP is take affect but not too significant in the short term.

These findings have important implications on the policy formulation in Indonesia at both the short term and the long term but the effect is relatively small. An expenditure-switching or expenditure-reducing policy on final consumption can be adopted in order to act on the demand for money. This implies that if the demand for broad money is considered as a monetary target, it will take quite a large change in the economics variables before inducing the desired change in the broad money demand.

6.2. Recommendations

Based on the analysis and discussion of the result of testing the hypothesis put forward some suggestions that may be useful for:

- a. Government - as consideration for arranging the broad money in Indonesia. Controlling the broad money must adjust to demand for money. The behavior of the demand for money or cyclical public spending, capital mobility between other countries, international trade balance financial or technological innovation can increasing money demand models.
- b. Future Researcher - as reference material for further research, and was advised to try using another methods and variable or more variables used, as in the political sector, investment goods, and other analysis policy to compare with this study.

