CHAPTER VI

CONCLUSION AND RECOMMENDATION

6.1 Conclusion

Based on empirical results research discussion from the previous chapter, the main objective of this research is to analyze The Impact Of Money Supply, Interest Rate and Government Expenditure To Inflation In Indonesia 1995 – 2016. In this paper, the author used Ordinary Least Square (OLS) model to empirically test The Impact Of Money Supply, Interest Rate and Governemnet Expenditure To Inflation In Indonesia. From the analysis of data the conclusions are as follows:

1. Money Supply has a positive and significant correlation to the Inflation in Indonesia. This shows that a slight increase in the amount of money supply will affect the increase in inflation. Because the amount of money supply in an economy determines the value of money, while growth in the money supply is the main cause of inflation.
2. Interest Rate has a positive and significant correlation to the Inflation in Indonesia. This shows that if interest rate decrease put more borrowing power in the hands of consumers. And when consumers spend more, the economy grows, naturally creating inflation.
3. Governement Expenditure has a negative and significant correlation to the Inflation in Indonesia. This explains that when there is an increase in government expenditure then inflation will fall. This is compatible with the theory that aggregate demand is largely determined by

government expenditure. Because the government must be active in encouraging aggregate demand. When the aggregate demand growth factor occurs the impact is that households and increase in firms spending and cause aggregate demand to increase and this will create inflationary pressures.

6.2 Recommendation

1. The government should consider or expect inflation to occur if it wants to add additional printing of new money, because too large printing of new money will result in economic shocks.
2. If the inflation happen, the government must always be ready by determining what policies are needed to overcome inflation in Indonesia, such as monetary policy, fiscal policy, non-meneter policy or a combination of the three policies.
3. Focus on high and low of inflation in Indonesia, to make the Indonesian economy more stable, the government must take the policy. To decrease the inflation in Indonesia, the government needs to control the money supply and interest rates through the monetary policy.