



“The effect of Financial Innovation to Demand for Money in Indonesia”

Thesis

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## Abstract

Changes in the payment system from fiat money and commodity money to financial innovation have an impact on the economy, especially the demand for cash. The most frequently used proxies for financial innovation in Indonesia are ATM and E-Money transactions. Data from Bank Indonesia shows that the use of ATMs and E-Money continues to increase every year. This research made to know the effect of financial innovation to money demand for cash in Indonesia. The research method is Vector Error Correction Model (VECM) and using secondary data from Bank Indonesia, Central Bureau of Statistics, and any relates institutions. The data was obtained from 2010-2019 consisting of ATM transaction, E-Money transaction, and amount of money demand calculated by M2/GDP. Using the proxy of financial innovation are ATM transaction and E-money, the result showed that the effect of ATM transaction to money demand for cash in Indonesia is positive with significant level 1%. The increase in ATM transaction will increase the money demand for cash in Indonesia. The result of the effect of E-Money to money demand for cash in Indonesia showed negatively affected with significant level at 1%. When the using of E-Money increase, money demand for cash will decrease. There is no different result of the effect of ATM transaction and E-Money in short term and long term.

Keyword: Financial Innovation, Money Demand, ATM transaction, E-Money.

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