CHAPTER V

CONCLUSION AND SUGGESTION

5.1. Conclusion

Based on the results of the research "analysis of money demand in Indonesia from 2008 to 2018" using the Error Correction Model (ECM) approach, the following conclusions are obtained:

a. In the short term, the impact on the independent variable inflation, interest rate, industrial production index (IPI), exchange rate, equivalent rate, third party funds and ECT simultaneously influence money demand (M2) in Indonesia, the Adjusted R Square value is 0.7617, which means that the ability of the independent variable in explaining the change in the value of the dependent variable is 76.17% and the remaining 23.83% is influenced by other factors outside the model.

b. In the long term (inflation, interest rate, industrial production index (IPI), Exchange rate, Equivalent rate, and third party fund (DPK)) simultaneously affected the money demand (M2) in Indonesia. Which means that, the independent variables have a significant effect on the dependent variable (M2), simultaneously, in Indonesia. The effect of the independent variable affects the independent variable in the long term, by looking at Adjusted R Squared of 55.84% which can be interpreted that the ability of the independent variable in explaining the change in the value of the dependent variable is 55.84% and the remaining 44.16% is influenced by factors Other factors outside the model.

c. The five variables (inflation, exchange rate, equivalent rate, industrial production index (IPI), and third party funds (DPK) have a positive and significant effect on money demand (M2) both short term and long term.

d. However, Interest rate variable has a negative and not significant effect in the short term. Whereas, in the long term interest rate variable has a negative and significant effect on money demand (M2). When interest rates increase, money demand decreases and vice versa.

Money demand conditions in the Indonesian economy are dominated by the influence of interest rates and inflation. This refers to the theory of interest rate transmission which explains that the role of the monetary sector is important in controlling money demand. The government through the central bank controls the economy in Indonesia, economic growth is quite influential on interest rates, inflation and demand. Bank Indonesia, as the monetary authority, is expected to maintain monetary stability through safeguarding against inflation, because research results in both the short and long term inflation have a significant effect on money demand in Indonesia. Referring to the results of the study, the government should be more careful in implementing monetary policies related to inflation, interest rates, exchange rates, industrial production index (IPI), equivalent rate and third party funds (DPK) which can affect the money supply (M2). The proceedings that must be taken are controlling money demand in order to be able to overcome the risks that will occur in the Indonesian economy.

5.2. Suggestion

Based on the research results the suggestion given by the researcher as follows:

a. Bank Indonesia as a monetary authority must be more intensive in controlling money demand through open market political instruments by buying or selling securities, thereby encouraging the stability of the rupiah exchange rate.
b. The government and Indonesian banks should keep inflation low. so that the interest rate (BI rate) can be set at a low level, able to increase the volume of investment to drive the real sector.
c. To be able to control inflation, the government and the central bank can jointly withstand price fluctuations by increasing domestic production which is cheaper than imported goods.
d. For researchers who want to do the same topic, it is better to add other relevant variables, using more accurate data and a longer time span allows better research results. Use more complete and accurate methods and tests to obtain more valid conclusions.